# Financial Section

## Consolidated Balance Sheets

KDDI Corporation and its Subsidiaries
As of March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and deposits (Notes 4, 5, 8) | ¥ 96,952 | ¥ 222,051 | $ 2,158 |
| Accounts receivable (Note 5) | 1,032,722 | 1,163,218 | 11,302 |
| Short-term investment securities (Notes 4, 5, 7, 8) | 231 | 274 | 3 |
| Inventories | 56,943 | 86,060 | 836 |
| Deferred tax assets (Note 13) | 58,768 | 51,353 | 499 |
| Prepaid expenses and other current assets | 25,524 | 44,177 | 429 |
| Allowance for doubtful accounts (Note 5) | (20,271) | (21,533) | (209) |
| Total Current Assets | 1,250,869 | 1,545,599 | 15,017 |
| **Property, Plant and Equipment** | | | |
| Machinery, antenna facilities, terminal facilities, local line facilities, long-distance line facilities, engineering facilities, submarine line facilities (Note 8) | 3,997,719 | 3,578,081 | 34,766 |
| Buildings and structures (Note 8) | 613,562 | 928,954 | 9,026 |
| Machinery and tools (Note 8) | 193,866 | 312,002 | 3,031 |
| Land | 249,931 | 256,506 | 2,492 |
| Construction in progress | 124,561 | 169,867 | 1,650 |
| Other property, plant and equipment (Note 8) | 30,200 | 112,353 | 1,092 |
| | 5,209,841 | 5,357,762 | 52,058 |
| Accumulated depreciation | (3,379,882) | (3,219,754) | (31,284) |
| Net Property, Plant and Equipment | 1,829,959 | 2,138,009 | 20,774 |
| **Investments and Other Assets** | | | |
| Investment securities (Notes 5, 7, 8) | 81,787 | 91,509 | 889 |
| Investments in affiliates (Notes 5, 8) | 348,388 | 41,755 | 406 |
| Intangible assets | 217,698 | 405,662 | 3,942 |
| Goodwill | 86,376 | 337,457 | 3,279 |
| Deferred tax assets (Note 13) | 114,577 | 79,315 | 771 |
| Net defined benefit asset | — | 20,103 | 195 |
| Other assets | 166,360 | 295,924 | 2,875 |
| Allowance for doubtful accounts | (11,015) | (9,576) | (93) |
| Total Investments and Other Assets | 1,004,171 | 1,262,149 | 12,263 |
| Total Assets | ¥ 4,084,999 | ¥ 4,945,757 | $ 48,054 |

The accompanying notes are an integral part of these consolidated financial statements.

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Short-term loans payable and current portion of noncurrent liabilities (Notes 5, 8) | ¥ 264,693 | ¥ 328,722 | $ 3,194 |
| Accounts payable (Notes 5, 6, 8) | 369,838 | 436,244 | 4,239 |
| Income taxes payable (Note 5) | 104,774 | 125,365 | 1,218 |
| Accrued expenses (Note 5) | 23,000 | 26,732 | 260 |
| Provision for bonuses | 20,765 | 28,771 | 280 |
| Provision for loss on the Great East Japan Earthquake | 49 | — | — |
| Other current liabilities | 94,077 | 103,103 | 1,002 |
| Total Current Liabilities | 877,196 | 1,048,937 | 10,192 |
| Noncurrent Liabilities | | | |
| Long-term loans payable (Notes 5, 6, 8) | 244,728 | 518,698 | 5,040 |
| Bonds payable (Notes 5, 8) | 259,997 | 204,999 | 1,992 |
| Convertible bond-type bonds with subscription rights to shares (Notes 5, 8) | 200,667 | — | — |
| Provision for point service program | 91,583 | 76,338 | 742 |
| Net defined benefit liability (Notes 3, 14) | — | 17,340 | 168 |
| Provision for retirement benefits and other noncurrent liabilities (Notes 5, 14) | 87,465 | 162,456 | 1,578 |
| Total Noncurrent Liabilities | 884,440 | 979,831 | 9,520 |
| Total Liabilities | 1,761,636 | 2,028,767 | 19,712 |
| Contingent Liabilities (Note 9) | | | |
| Net Assets | | | |
| Shareholders' Equity | | | |
| Capital stock: | | | |
| Authorized-700,000,000 and 1,400,000,000 shares at March 31, 2013 and 2014, respectively | | | |
| Issued-448,481,800 and 896,963,600 shares at March 31, 2013 and 2014, respectively | 141,852 | 141,852 | 1,378 |
| Capital surplus | 367,145 | 385,943 | 3,750 |
| Retained earnings | 2,055,587 | 2,291,730 | 22,267 |
| Treasury stock: | | | |
| Number of treasury stock—66,269,400 and 61,984,948 shares at March 31, 2013 and 2014, respectively | (346,002) | (161,822) | (1,572) |
| Total Shareholders' Equity | 2,218,581 | 2,657,703 | 25,823 |
| Accumulated Other Comprehensive Income | | | |
| Valuation difference on available for-sale securities | 38,882 | 45,731 | 444 |
| Deferred gain or loss on hedges | (1,598) | (1,585) | (15) |
| Foreign currency translation adjustments | (6,071) | 15,189 | 148 |
| Remeasurements of defined benefit plans | — | 6,352 | 62 |
| Total Accumulated Other Comprehensive Income | 31,213 | 65,688 | 638 |
| Subscription Rights to Shares | 574 | 40 | 0 |
| Minority Interests | 72,995 | 193,559 | 1,881 |
| Total Net Assets | 2,323,363 | 2,916,990 | 28,342 |
| Total Liabilities and Net Assets | ¥4,084,999 | ¥4,945,757 | $48,054 |

# Consolidated Statements of Income

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| **Operating Revenues:** | | | |
| Revenues from telecommunications business | ¥2,432,726 | ¥2,609,157 | $25,351 |
| Sales of mobile terminals and other | 1,229,562 | 1,724,471 | 16,755 |
| Total Operating Revenues | 3,662,289 | 4,333,628 | 42,107 |
| **Operating Expenses:** | | | |
| Business expenses (Note 16) | 671,840 | 684,469 | 6,650 |
| Depreciation | 371,966 | 362,057 | 3,518 |
| Communication facility fee | 374,825 | 364,320 | 3,540 |
| Cost of sales of mobile terminals and other | 1,309,048 | 1,843,902 | 17,916 |
| Other (Notes 12, 16) | 421,942 | 415,636 | 4,038 |
| Total Operating Expenses | 3,149,619 | 3,670,383 | 35,662 |
| Operating Income | 512,669 | 663,245 | 6,444 |
| **Other Expenses (Income):** | | | |
| Interest expenses | 11,118 | 12,019 | 117 |
| Interest income | (775) | (742) | (7) |
| Dividends income | (1,987) | (1,845) | (18) |
| Equity in losses of affiliates | — | 741 | 7 |
| Equity in income of affiliates | (3,899) | — | — |
| Loss on valuation of investment securities | 520 | 270 | 3 |
| Gain on sales of investment securities | (1,050) | (6,866) | (67) |
| Gain on sales of noncurrent assets (Note 11) | (588) | (300) | (3) |
| Loss on sales of noncurrent assets (Note 11) | 1,078 | 378 | 4 |
| Gain on reversal of subscription rights to shares | (512) | — | — |
| Impairment loss (Note 10) | 80,549 | 8,696 | 84 |
| Loss on retirement of noncurrent assets (Note 11) | 22,713 | — | — |
| Other, net | (6,208) | 30,266 | 294 |
| Total Other Expenses | 100,957 | 42,616 | 414 |
| Income before Income Taxes and Minority Interests | 411,712 | 620,629 | 6,030 |
| **Income Taxes** (Note 13): | | | |
| Current | 173,408 | 232,538 | 2,259 |
| Deferred | (11,161) | 32,233 | 313 |
| Total Income Taxes | 162,248 | 264,771 | 2,573 |
| Income before Minority Interests | 249,464 | 355,858 | 3,458 |
| Minority Interests in Income | 7,994 | 33,819 | 329 |
| Net Income | ¥ 241,470 | ¥ 322,038 | $ 3,129 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| **Per Share Data** (Note 21): | | | |
| Net income | ¥ 315.90 | ¥398.60 | $3.87 |
| Diluted net income | 289.26 | — | — |
| Cash dividends | 8,595.00 | 130.00 | 1.26 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Comprehensive Income (Note 15)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Income before Minority Interests | ¥249,464 | ¥355,858 | $3,458 |
| Other Comprehensive Income | | | |
| Valuation difference on available-for-sale securities | 711 | 7,499 | 73 |
| Deferred gains or losses on hedges | — | 41 | 0 |
| Foreign currency translation adjustments | 12,063 | 25,444 | 247 |
| Share of other comprehensive income of associates accounted for using equity method | 1,342 | (483) | (5) |
| Total Other Comprehensive Income | 14,115 | 32,501 | 316 |
| Comprehensive Income | 263,579 | 388,359 | 3,773 |
| Comprehensive income attributable to | | | |
| Comprehensive income attributable to owners of the parent | 253,816 | 350,161 | 3,402 |
| Comprehensive income attributable to minority interests | ¥ 9,763 | ¥ 38,198 | $ 371 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Changes in Net Assets (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Shareholders' Equity | | | |
| Capital Stock | | | |
| Balance at the beginning of the period | ¥ 141,852 | ¥ 141,852 | $ 1,378 |
| Balance at the end of the period | 141,852 | 141,852 | 1,378 |
| Capital Surplus | | | |
| Balance at the beginning of the period | 367,104 | 367,145 | 3,567 |
| Changes of items during the period | | | |
| Disposal of treasury stock | 40 | 18,281 | 178 |
| Other | — | 517 | 5 |
| Total changes of items during the period | 40 | 18,798 | 183 |
| Balance at the end of the period | 367,145 | 385,943 | 3,750 |
| Retained Earnings | | | |
| Balance at the beginning of the period | 1,879,088 | 2,055,587 | 19,973 |
| Changes of items during the period | | | |
| Dividends from surplus | (64,971) | (85,895) | (835) |
| Net income | 241,470 | 322,038 | 3,129 |
| Total changes of items during the period | 176,499 | 236,143 | 2,294 |
| Balance at the end of the period | 2,055,587 | 2,291,730 | 22,267 |
| Treasury Stock | | | |
| Balance at the beginning of the period | (346,164) | (346,002) | (3,362) |
| Changes of items during the period | | | |
| Purchase of treasury stock | (2) | (20) | (0) |
| Disposal of treasury stock | 164 | 184,200 | 1,790 |
| Total changes of items during the period | 162 | 184,180 | 1,790 |
| Balance at the end of the period | (346,002) | (161,822) | (1,572) |
| Total Shareholders' Equity | | | |
| Balance at the beginning of the period | 2,041,880 | 2,218,581 | 21,556 |
| Changes of items during the period | | | |
| Dividends from surplus | (64,971) | (85,895) | (835) |
| Net income | 241,470 | 322,038 | 3,129 |
| Purchase of treasury stock | (2) | (20) | (0) |
| Disposal of treasury stock | 205 | 202,481 | 1,967 |
| Other | — | 517 | 5 |
| Total changes of items during the period | 176,702 | 439,121 | 4,267 |
| Balance at the end of the period | ¥2,218,581 | ¥2,657,703 | $25,823 |

# Consolidated Statements of Changes in Net Assets — (continued) (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Accumulated Other Comprehensive Income | | | |
| Valuation Difference on Available-for-sale Securities | | | |
| Balance at the beginning of the period | ¥ 36,443 | ¥ 38,882 | $ 378 |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 2,439 | 6,849 | 67 |
| Total changes of items during the period | 2,439 | 6,849 | 67 |
| Balance at the end of the period | 38,882 | 45,731 | 444 |
| Deferred Gain or Loss on Hedges | | | |
| Balance at the beginning of the period | (677) | (1,598) | (16) |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | (921) | 13 | 0 |
| Total changes of items during the period | (921) | 13 | 0 |
| Balance at the end of the period | (1,598) | (1,585) | (15) |
| Foreign Currency Translation Adjustments | | | |
| Balance at the beginning of the period | (16,899) | (6,071) | (59) |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 10,828 | 21,260 | 207 |
| Total changes of items during the period | 10,828 | 21,260 | 207 |
| Balance at the end of the period | (6,071) | 15,189 | 148 |
| Remeasurements of Defined Benefit Plans | | | |
| Balance at the beginning of the period | — | — | — |
| Changes of items during the period | — | — | — |
| Net changes of items other than shareholders' equity | — | 6,352 | 62 |
| Total changes of items during the period | — | 6,352 | 62 |
| Balance at the end of the period | — | 6,352 | 62 |
| Total Accumulated Other Comprehensive Income | | | |
| Balance at the beginning of the period | 18,867 | 31,213 | 303 |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 12,346 | 34,475 | 335 |
| Total changes of items during the period | 12,346 | 34,475 | 335 |
| Balance at the end of the period | 31,213 | 65,688 | 638 |
| Subscription Rights to Shares | | | |
| Balance at the beginning of the period | 1,129 | 574 | 6 |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | (555) | (534) | (5) |
| Total changes of items during the period | (555) | (534) | (5) |
| Balance at the end of the period | 574 | 40 | 0 |
| Minority Interests | | | |
| Balance at the beginning of the period | 66,749 | 72,995 | 709 |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 6,245 | 120,564 | 1,171 |
| Total changes of items during the period | 6,245 | 120,564 | 1,171 |
| Balance at the end of the period | 72,995 | 193,559 | 1,881 |
| Total Net Assets | | | |
| Balance at the beginning of the period | 2,128,625 | 2,323,363 | 22,574 |
| Changes of items during the period | | | |
| Dividends from surplus | (64,971) | (85,895) | (835) |
| Net income | 241,470 | 322,038 | 3,129 |
| Purchase of treasury stock | (2) | (20) | 0 |
| Disposal of treasury stock | 205 | 202,481 | 1,967 |
| Other | — | 517 | 5 |
| Net changes of items other than shareholders' equity | 18,037 | 154,505 | 1,501 |
| Total changes of items during the period | 194,739 | 593,626 | 5,768 |
| Balance at the end of the period | ¥2,323,363 | ¥2,916,990 | $28,342 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| **Net Cash Provided by (Used in) Operating Activities** | | | |
| Income before income taxes and minority interests | ¥ 411,712 | ¥ 620,629 | $ 6,030 |
| Depreciation and amortization | 406,726 | 470,098 | 4,568 |
| Impairment loss | 80,549 | 8,696 | 84 |
| Amortization of goodwill | 16,444 | 28,255 | 275 |
| Loss (gain) on sales of noncurrent assets | 535 | 79 | 1 |
| Loss on retirement of noncurrent assets | 23,732 | 24,774 | 241 |
| Increase (decrease) in provision for loss on the Great East Japan Earthquake | (1,943) | — | — |
| Loss on step acquisitions | — | 38,458 | 374 |
| Increase (decrease) in allowance for doubtful accounts | 7,001 | (994) | (10) |
| Increase (decrease) in provision for retirement benefits | (5,238) | (13,735) | (133) |
| Decrease (increase) in net defined benefit asset | — | (20,103) | (195) |
| Increase (decrease) in net defined benefit liability | — | 17,340 | 168 |
| Interest and dividends income | (2,763) | (2,587) | (25) |
| Interest expenses | 11,118 | 12,019 | 117 |
| Equity in losses (earnings) of affiliates | (3,899) | 741 | 7 |
| Loss (gain) on valuation of investment securities | 521 | 278 | 3 |
| Increase (decrease) in provision for point service program | 130 | (15,245) | (148) |
| Changes in assets and liabilities | | | |
| Decrease (increase) in prepaid pension costs | 1,844 | 5,285 | 51 |
| Decrease (increase) in notes and accounts receivable-trade | (199,531) | (95,834) | (931) |
| Decrease (increase) in inventories | 8,613 | (25,941) | (252) |
| Increase (decrease) in notes and accounts payable-trade | (10,289) | (3,789) | (37) |
| Increase (decrease) in accounts payable-other | 4,872 | (42,062) | (409) |
| Increase (decrease) in accrued expenses | 1,192 | (2,254) | (22) |
| Increase (decrease) in advances received | (2,297) | (16,409) | (159) |
| Other, net | (5,841) | 12,408 | 121 |
| Subtotal | 743,185 | 1,000,106 | 9,717 |
| Interest and dividends income received | 10,306 | 4,773 | 46 |
| Interest expenses paid | (11,225) | (11,183) | (109) |
| Income taxes paid | (218,358) | (221,489) | (2,152) |
| Net Cash Provided by (Used in) Operating Activities | 523,908 | 772,207 | 7,503 |
| **Net Cash Provided by (Used in) Investing Activities** | | | |
| Purchase of property, plant and equipment | (322,817) | (438,329) | (4,259) |
| Proceeds from sales of property, plant and equipment | 1,949 | 993 | 10 |
| Purchase of intangible assets | (92,955) | (70,945) | (689) |
| Purchase of investment securities | (2,158) | (2,579) | (25) |
| Proceeds from sales of investment securities | 6,959 | 17,041 | 166 |
| Purchase of stocks of subsidiaries and affiliates | (9,679) | (8,256) | (80) |
| Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 21) | (2,403) | (19,840) | (193) |
| Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation | — | 16,272 | 158 |
| Proceeds from sales of subsidiaries and affiliates | — | 18,807 | 183 |
| Purchase of long-term prepaid expenses | (51,322) | (62,688) | (609) |
| Other, net | (566) | 3,268 | 32 |
| Net Cash Provided by (Used in) Investing Activities | (472,992) | (546,257) | (5,308) |
| **Net Cash Provided by (Used in) Financing Activities** | | | |
| Net increase (decrease) in short-term loans payable | 86,582 | (119,029) | (1,157) |
| Proceeds from long-term loans payable | 24,000 | 350,000 | 3,401 |
| Repayment of long-term loans payable | (112,960) | (142,250) | (1,382) |
| Proceeds from issuance of bonds | — | 30,000 | 291 |
| Redemption of bonds | (65,000) | (90,000) | (874) |
| Purchase of treasury stock | (2) | (20) | (0) |
| Cash dividends paid | (64,974) | (85,886) | (834) |
| Cash dividends paid to minority shareholders | (1,372) | (27,346) | (266) |
| Proceeds from stock issuance to minority shareholders | 257 | 19 | 0 |
| Other, net | (6,782) | (21,132) | (205) |
| Net Cash Provided by (Used in) Financing Activities | (140,250) | (105,644) | (1,026) |
| Effect of Exchange Rate Change on Cash and Cash Equivalents | 2,431 | 4,365 | 42 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (86,903) | 124,672 | 1,211 |
| Cash and Cash Equivalents at Beginning of the Year | 174,192 | 87,289 | 848 |
| Increase in Cash and Cash Equivalents Resulting from Merger | — | 570 | 6 |
| Cash and Cash Equivalents at End of the Year (Note 4) | ¥ 87,289 | ¥ 212,530 | $ 2,065 |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

KDDI Corporation and its Subsidiaries
Year ended March 31, 2014

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared based on the consolidated financial statements disclosed in Japan for domestic reporting purposes.

KDDI CORPORATION (the “Company”) prepares these consolidated financial statements in accordance with the Financial Instruments and Exchange Law, Corporate Law and Japanese Telecommunications Business Law and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to accounting and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements disclosed in Japan have been reclassified and adjusted in order to make it easier for overseas readers to comprehend. In addition, certain reclassifications and adjustments have been made in the consolidated financial statements as of and for the year ended March 31, 2013 to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2014.

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥102.92=U.S.$1, the approximate exchange rate on March 31, 2014. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

The Company’s consolidated financial statements for the year ended March 31, 2014 include the Company and its 152 subsidiaries, comprising of; OKINAWA CELLULAR TELEPHONE COMPANY, Jupiter Telecommunications Co., Ltd., JAPAN CABLENET LIMITED*, Chubu Telecommunications Co., INC., KDDI MATOMETE OFFICE CORPORATION, KDDI R&D Laboratories, Inc., KDDI Engineering Corporation, KDDI Evolva Inc., KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2014, significant changes in the scope had occurred as follows:

**Added (Consolidated):**

- 1 company due to stock acquisition, increasing the Company’s holdings and on the basis of effective control standards
  Jupiter Telecommunications Co., Ltd.
- 19 companies due to the subsidiaries of Jupiter Telecommunications Co., Ltd., which was included in the scope of consolidated subsidiaries due to stock acquisition, increasing the Company’s holdings and on the basis of effective control standards
  J:COM West Co., Ltd., J:COM East Co., Ltd. and 17 companies.
- 8 companies due to stock acquisition
  Evolva Call Advance Inc., ScaleOut Inc., IP Power Systems Corp., Cosmos Ltd., Bitcellar, Inc., UBIK do Brasil Solucoes em Tecnologia Ltda, UBIK Japan Corporation, YourGolf Online Inc.
- 1 company due to new establishment
  KDDI FINANCIAL SERVICE CORPORATION

**Removed (Consolidated):**

- 2 companies due to liquidation
  One Network, Inc., 1MP (HK) Limited.
- 3 companies due to merger
  KDDI Okinawa Co., Ltd., JAPAN CABLENET LIMITED*, Nobot Inc.

Note: On November 1, 2013, JAPAN CABLENET LIMITED merged with JAPAN CABLENET HOLDINGS LIMITED, with the latter becoming the surviving company and renamed to JAPAN CABLENET LIMITED. Also, JAPAN CABLENET LIMITED was extinguished, due to merger with Jupiter Telecommunications Co., Ltd. on April 1, 2014.

Also, the number of the Company’s equity-method affiliates at March 31, 2014 was 28 such as Kyocera Communication Systems Co., Ltd., UQ Communications Inc., Jibun Bank Corporation, Mobaoku Co., Ltd., and MOBICOM Corporation.

During the year ended March 31, 2014, changes in the scope were incurred as follows:

**Added (Equity Method):**

- 12 companies due to stock acquisition
  10 equity method companies of Jupiter Telecommunications Co., Ltd., LAC Co., Ltd., Gunosy Inc.

**Removed (Equity Method):**

- 1 company due to additional purchase of shares, resulting in subsidiary
  Jupiter Telecommunications Co., Ltd.
- 2 companies due to liquidation
  Safetynet Japan K.K., KDDI&BT Global Solutions Corporation
- 1 company due to stock exchange
  Microfinance International Corporation
- 1 company due to merger
  NJ Corporation

## 2. Significant Accounting Policies

### a. Basis of Consolidation and Accounting for Investments in Affiliated Companies

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (the "Companies").

All significant intercompany transactions and accounts are eliminated.

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year end date is different from that of the Company. The difference between the fiscal year end date of the subsidiaries and that of the Company does not exceed three months. In cases where the financial statements have a different fiscal year end date from that of the Company, necessary adjustments are made for the effects of significant transactions or events that occurred between the fiscal year end date of the subsidiaries and that of the Company.

Investments in certain affiliates are accounted for using the equity method, whereby a consolidated group includes in net income its share of the profit or loss of these companies, and records its investments at cost adjusted for such share of profit or loss.

Additionally, investments in non-consolidated subsidiary (ATTRACT INC.) and affiliates (CJSC Vostoktelecom, etc.) are accounted for using cost method as the effect of application of the equity method is immaterial.

### b. Revenue Recognition

For telecommunications services, revenues are recognized mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized on fulfillment of contractual obligations, which is generally on shipment basis. Revenues from rentals and other services are recognized proportionately over the contract period or as services are rendered.

### c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, demand deposits and highly liquid short-term investments with maturity of three months or less at the time of purchase, which are subject to an insignificant risk of change in value.

### d. Inventories

Inventories are stated at cost. Cost is determined by the moving average method. Inventories consist primarily of mobile terminals. The method of write downs based on the decrease in profitability is applied in order to calculate the inventory value in the balance sheet.

### e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign currency translation adjustments" and "Minority interests" of "Net assets."

### f. Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost. Assets are depreciated over their estimated useful lives by applying mainly the declining balance method to machineries owned by the Company, and by the straight-line method to property, plant and equipment other than machinery owned by the Companies.

The main useful lives are as follows:

Machinery: 9 years
Antenna facilities, Buildings, Structures, Local line facilities, Engineering facilities: 10 to 38 years

### g. Intangible Assets (except for leased assets)

Amortization of intangible assets (except for leased assets) is calculated using the straight-line method over the estimated useful lives of the respective assets.

Goodwill is amortized using the straight-line method over a period of 5 to 20 years. The immaterial goodwill was expensed as incurred for the year ended March 31, 2014.

Research and development costs are expensed as incurred.

Internal use of software included in intangible assets is amortized using the straight-line method over the estimated useful lives (5 years). Customer-related assets are amortized over 8–17 years, and assets related to program supply are amortized over 22 years.

### h. Other assets

Long-term prepaid expenses are amortized using the straight-line method.

### i. Financial Instruments

#### (1) Securities

Bonds intended to be held to maturity are stated at amortized cost (straight-line method).

Available-for-sale securities for which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gain and loss, net of applicable deferred tax assets/liabilities are directly reported as a separate component of "Net assets." The cost of securities sold is determined by the moving average method.

Available-for-sale securities for which market quotations are not available are valued at cost mainly determined by the moving average method.

#### (2) Derivatives

Derivatives are used to hedge against interest rate fluctuation risks based on the Companies' policy.

Major hedging instruments are interest rate swaps and hedged items are loans.

The interest rate swaps used to hedge interest rate fluctuations are measured at the fair values and unrealized gains or losses is presented in the accompanying consolidated statements of comprehensive income.

The interest rate swaps meeting the requirement of exceptional treatment under Japanese GAAP are not measured at the fair value and the differences between payment amount and receipt amount are included in the interest expenses or income.

### j. Income Taxes
Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred tax assets and liabilities are determined based on the timing differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

### k. Lease
Leased assets related to financial leases that do not transfer ownership rights are amortized using the straight-line method based on the lease terms as the useful lives and residual value of zero. The Companies continue to apply the method for ordinary operating lease transactions to financial leases that do not transfer ownership rights entered before March 31, 2008.

### l. Net Income per Share
Net income per share is computed based on the average number of shares outstanding during the year.

### m. Allowance for Doubtful Accounts
The Companies record allowance for doubtful accounts based on the actual bad debt ratio and then lost individual allowance is accrued against specific account that is deemed to be uncollectible.

### n. Provisions
#### (1) Provision for point service program
The Companies record provisions for the future costs to be incurred in connection with point service programs such as the "au Point Program". Under these programs customers earn points based on criteria of the specific programs to be utilized at a future date. The Companies' reserve is based on the historical experience of points earned and utilized by customers.

#### (2) Provision for bonuses
To prepare for the payment of bonuses to employees, the Companies record the estimated amounts of bonuses to be paid.

### o. Retirement Benefits (Defined benefit Plan)
#### (1) Attribution of expected projected benefit obligations
Allocation of projected defined benefit obligations in direct portion to the years of service is based on straight-line attribution.

#### (2) Amortization of prior service cost and actuarial gains and losses
Prior service cost is amortized on a straight-line basis over the average remaining service lives of employees (14 years) in the year in which it arises.

Actuarial gains and losses are amortized on a straight-line basis over the average remaining service lives of employees (14 years) from the year following that in which they arise.

### p. Others
#### (1) Accounting method for consumption taxes
Consumption taxes and local consumption taxes are excluded from transaction amounts. Non-deductible consumption taxes relating to the assets are expensed as incurred.

#### (2) Bond issuance costs
Bond issuance costs are expensed as incurred.

## 3. Accounting Changes and Others

### a. Changes in Accounting Policies
#### Adoption of New Accounting Standard for Retirement Benefits
For the year ended March 31, 2014, the Companies have adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Implementation Guidance for the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (excluding, however, the provisions found in the body text of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Implementation Guidance for the Accounting Standard for Retirement Benefits). Under the new standard, the Companies revised its method of accounting for retirement benefit obligations, recording the amount deducting the plan assets from these obligations as net defined benefit asset or net defined benefit liability, and accordingly, recording unrecognized actuarial differences and unrecognized prior service costs as net defined benefit asset or net defined benefit liability.

With regard to the adoption of the Accounting Standard for Retirement Benefits, in accordance with the provisions on transitional implementation indicated in Paragraph 37 of the Accounting Standard for Retirement Benefits, the impact of these changes is included in remeasurement of defined benefit plans within accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, the Companies recorded net defined benefit asset of ¥20,103 million (U.S.$195 million), net defined benefit asset of ¥17,340 million (U.S.$168 million), increased accumulated other comprehensive income by ¥6,352 million (U.S.$62 million) and decreased minority interests by ¥123 million (U.S.$1 million).

The amount of financial impact on per share information is included in the Per Share Information section.

### b. Changes in Presentation
#### Consolidated Statements of Income
"Compensation expenses" under non-operating expenses listed in the year ended March 31, 2013 has been included in "Other, net" as it has become less significant in monetary terms from the current fiscal year. The consolidated financial statements have been reclassified to reflect these changes in presentation.

As a result, ¥2,003 million (U.S.$19 million) that was recorded as "Compensation expenses" under non-operating expenses on the consolidated statements of income in the year ended March 31, 2013 is reclassified as "Other, net."

### c. New Accounting Standard Not Yet Adopted
"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Implementation Guidance for the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

#### (1) Overview
From the standpoint of improvements to financial reporting and international convergence, this accounting standard was revised mainly focusing on the treatment of unrecognized actuarial gains and losses and unrecognized prior service cost, the calculation method of retirement benefit obligations and current service cost, and enhancement of disclosures.

### (2) Scheduled date of application

The Companies are scheduled to adopt the revision to calculation method of retirement benefit obligations and current service cost from the beginning of the fiscal year starting on April 1, 2014.

### (3) Effect of application of this accounting standard

In accordance with adoption of this accounting standard, the retained earnings at the beginning of the fiscal year starting on April 1, 2014 is expected to decrease by ¥8,055 million (U.S.$78 million) and the effect on profit and loss will be insignificant.

## 4. Cash and Cash Equivalents

For the purpose of presenting the consolidated statements of cash flows, cash and cash equivalents comprise the followings:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Cash and deposits | ¥96,952 | ¥222,051 | $2,158 |
| Short-term investment securities | 231 | 274 | 3 |
| Total | 97,183 | 222,324 | 2,160 |
| Time deposits due beyond three months | (9,895) | (9,794) | (95) |
| Cash and cash equivalents | ¥87,289 | ¥212,530 | $2,065 |

## 5. Financial Instruments

### 1. Status of Financial Instruments

#### (1) Policy for measures relating to financial instruments

In light of plans for capital investment, primarily for conducting telecommunications business, the Companies raise the funds it requires through bank loans and bonds issuance. The Companies manage temporary fund surpluses through financial assets that have high levels of safety. Further, the Companies raise short-term working capital through bank loans. Regarding derivatives policy, the Companies adhere to the fundamental principle of limiting transactions to those actually required and never conducting speculative transactions for trading profit.

#### (2) Details of financial instruments and associated risk and risk management policy

Trade receivables—trade notes and accounts receivable and other accounts receivable—are exposed to credit risk in relation to customers and trading partners. For such risk, pursuant to criteria for managing credit exposure, the Companies have systems to manage due dates and balances of each customer and trading partner as well as the analysis of credit status.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the investments in entities with which the Companies closely have operational relationships, and periodic analysis of market values is reported to the Board of Directors.

Almost all trade payables—trade notes and accounts payable, other accounts payable and accrued expenses—have payment due dates within one year.

Those trade payables are exposed to liquidity risk at time of settlement. However, the Companies reduce that risk by reviewing each fund-raising plan every month. Operating obligations denominated in foreign currencies are recognized as balances of currency-specific claims and obligations. Foreign exchange forward transactions are used on hedging instruments in response to obligations deemed subject to foreign exchange fluctuation risk.

Short-term loans payable are primarily for fund-raising related to sales transactions, and long-term loans payable are primarily for fund-raising related to capital investment and financing. Loans payable with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce interest rate fluctuation risk, the Companies enter into interest rate swap transactions on a contract basis. The Companies assess the effectiveness of those contracts that meet the criteria for exceptional treatment for each reporting period.

In relation to market risk, as the Companies conduct derivative transactions only with financial institutions with high credibility, the credit risk from the breach of contract by other party is quite slim.

In order to conduct derivative transactions, based on internal regulations of each subsidiary and regulations stipulating associated details, finance or accounting divisions must receive approval from those with final-approval authority as stipulated by authority-related regulations through consultation via an internal memo for each derivative transaction and only conduct transactions with financial institutions with high credit ratings.

#### (3) Supplementary explanation of items relating to the market values of financial instruments

The market values of financial instruments include prices based on market prices, or, if there are no market prices available, they include reasonably estimated prices. Because estimations of the said prices incorporate fluctuating factors, applying different assumptions can in some cases change the said prices.

### 2. Market Value of Financial Instruments

Amounts recognized in the consolidated balance sheets, market values and the differences between them on March 31, 2013 and 2014 are as shown below. Items for which market values are not readily determinable are not included in the following table (see (Note 2)).

At March 31, 2013

| | Book value | Market value | Difference |
|---|---|---|---|
| | | | Millions of yen |
| (1) Cash and deposits | ¥ 96,952 | ¥ 96,952 | ¥ — |
| (2) Accounts receivable | 1,032,722 | | |
| Less: Allowance for doubtful accounts*1 | (20,271) | | |
| | ¥1,012,450 | ¥1,012,450 | ¥ — |
| (3) Short-term investment securities | 231 | 231 | — |
| (4) Investment securities | | | |
| Bonds intended to be held to maturity | 3,005 | 3,216 | 211 |
| Other securities | 66,442 | 66,442 | — |
| (5) Stocks of subsidiaries and affiliates | 319,808 | 282,408 | (37,400) |
| Total asset accounts | ¥1,498,888 | ¥1,461,699 | ¥(37,189) |
| (6) Accounts payable | 82,753 | 82,753 | — |
| (7) Short-term loans payable | 88,257 | 88,257 | — |
| (8) Accounts payable-other | 287,085 | 287,085 | — |
| (9) Accrued expenses | 23,000 | 23,000 | — |
| (10) Income taxes payable | 104,774 | 104,774 | — |
| (11) Bonds payable*2 | 349,996 | 363,244 | 13,247 |
| (12) Convertible bond-type bonds with subscription rights to shares | 200,667 | 271,960 | 71,293 |
| (13) Long-term loans payable*2 | 325,453 | 330,412 | 4,958 |
| Total liability accounts | ¥1,461,985 | ¥1,551,484 | ¥ 89,499 |

*1. Allowance for doubtful accounts were deducted from accounts receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

At March 31, 2014

| | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Book value | Market value | Difference | Book value | Market value | Difference |
| (1) Cash and deposits | ¥ 222,051 | ¥ 222,051 | ¥ — | $ 2,158 | $ 2,158 | $ — |
| (2) Accounts receivable | 1,163,218 | | | 11,302 | | |
| Less: Allowance for doubtful accounts*1 | (21,533) | | | (209) | | |
| | ¥1,141,685 | ¥1,141,685 | ¥ — | $11,093 | $11,093 | $ — |
| (3) Short-term investment securities | 274 | 274 | — | 3 | 3 | — |
| (4) Investment securities | | | | | | |
| Bonds intended to be held to maturity | 3,004 | 3,180 | 176 | 29 | 31 | 2 |
| Other securities | 71,371 | 71,371 | — | 693 | 693 | — |
| (5) Stocks of subsidiaries and affiliates | 5,280 | 4,293 | (987) | 51 | 42 | (10) |
| Total asset accounts | ¥1,443,664 | ¥1,442,853 | ¥ (811) | $14,027 | $14,019 | $ (8) |
| (6) Accounts payable | 87,232 | 87,232 | — | 848 | 848 | — |
| (7) Short-term loans payable | 95,256 | 95,256 | — | 926 | 926 | — |
| (8) Accounts payable-other | 349,012 | 349,012 | — | 3,391 | 3,391 | — |
| (9) Accrued expenses | 26,732 | 26,732 | — | 260 | 260 | — |
| (10) Income taxes payable | 125,365 | 125,365 | — | 1,218 | 1,218 | — |
| (11) Bonds payable*2 | 299,.998 | 310,191 | 10,193 | 2,915 | 3,014 | 99 |
| (12) Convertible bond-type bonds with subscription rights to shares | — | — | — | | | |
| (13) Long-term loans payable*2 | 638,707 | 643,471 | 4,765 | 6,206 | 6,252 | 46 |
| Total liability accounts | ¥1,622,302 | ¥1,637,259 | ¥14,957 | $15,763 | $15,908 | $145 |
| Total derivative accounts | ¥ 901 | ¥ 901 | ¥ — | $ 9 | $ 9 | $ — |

*1. Allowance for doubtful accounts were deducted from accounts receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

Note 1: Calculation of the market value of financial instruments and items relating to short-term investment securities and derivative transactions

Assets

1) Cash and deposits, 2) Accounts receivable, 3) Short-term investment securities

As the settlement periods of the above items were short and their market values were almost the same as their book values, the relevant book values were used. Further, as the credit risks to accounts receivable were not readily determinable on an individual basis, allowances for doubtful accounts were regarded as credit.

4) Investment securities, 5) Stock of subsidiaries and affiliates

In relation to the market value of investment securities, for shares the market prices of exchanges were used. Further, for information on investment securities categorized according to holding purpose, refer to the Note 7. "Marketable Securities and Other Investments."

Liabilities

6) Accounts payable, 7) Short-term loans payable, 8) Accounts payable-other, 9) Accrued expenses, 10) Income taxes payable

As the settlement periods of the above items were short and their market values are almost the same as their book values, the relevant book values were used.

11) Bonds payable, 12) Convertible bond-type bonds with subscription rights to shares, 13) Long-term loans payable

The market values of bonds payable and convertible bond-type bonds with subscription rights to shares were calculated based on trading reference data.

The market values of long-term loans payable were calculated by applying a discount rate to the total of principal and interest. That discount rate was based on the assumed interest rate if a similar new loan was entered into.

As long-term loans payable with variable interest rates were based on the condition that interest rates were revised periodically, their market values were almost the same as their book values; the relevant book values were used.

Derivative transactions

Please see the note 6. "Derivatives."

Note 2: Financial instruments of which market values were not readily determinable.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | Book value | | Book value |
| | 2013 | 2014 | 2014 |
| Investment securities | | | |
| Unlisted equity securities | ¥12,340 | ¥17,134 | $166 |
| Stocks of subsidiaries and affiliates | | | |
| Unlisted equity securities | 28,361 | 36,200 | 352 |
| Investments in capital of subsidiaries and affiliates | 219 | 274 | 3 |

As the above financial instruments did not have readily determinable market values and it was practically difficult to estimate their market values, they were not included in the above table.

Note 3: Planned redemption amounts of monetary assets and short-term investment securities with monetary assets and maturity dates after the balance sheet date

| | Millions of yen | | Millions of yen | | Millions of U.S. dollars | |
|---|---|---|---|---|---|---|
| | Within 1 year | Over 1 year | Within 1 year | Over 1 year | Within 1 year | Over 1 year |
| | 2013 | | 2014 | | 2014 | |
| Cash and deposits | ¥ 96,952 | ¥ — | ¥ 222,051 | ¥ — | $ 2,158 | $ — |
| Accounts receivable | 896,525 | 136,197 | 1,013,856 | 149,362 | 9,851 | 1,451 |
| Securities | — | — | — | — | — | — |
| Short-term investment securities | — | 3,005 | — | 3,004 | — | 29 |
| Total | ¥993,477 | ¥139,202 | ¥1,235,907 | ¥152,366 | $12,008 | $1,480 |

Note 4: Planned repayment amounts after the balance sheet date for bonds payable and long-term loans payable with monetary assets and maturity dates

At March 31, 2013

Millions of yen

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Short-term loans payable | ¥ 88,257 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payable | 90,000 | 85,000 | 20,000 | 25,000 | 20,000 | 110,000 |
| Convertible bond-type bonds with subscription rights to shares | — | — | 200,000 | — | — | — |
| Long-term loans payable | 80,725 | 78,746 | 91,374 | 25,129 | 34,271 | 15,208 |
| Total | ¥258,982 | ¥163,746 | ¥311,374 | ¥50,129 | ¥54,271 | ¥125,208 |

At March 31, 2014

Millions of yen

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Short-term loans payable | ¥ 95,256 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payable | 95,000 | 20,000 | 25,000 | 20,000 | 10,000 | 130,000 |
| Convertible bond-type bonds with subscription rights to shares | — | — | — | — | — | — |
| Long-term loans payable | 120,009 | 93,370 | 25,630 | 34,370 | 100,120 | 265,208 |
| Total | ¥310,264 | ¥113,370 | ¥50,630 | ¥54,370 | ¥110,120 | ¥395,208 |

Millions of U.S. dollars

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Short-term loans payable | $ 926 | $ — | $ — | $ — | $ — | $ — |
| Bonds payable | 923 | 194 | 243 | 194 | 97 | 1,263 |
| Convertible bond-type bonds with subscription rights to shares | — | — | — | — | — | — |
| Long-term loans payable | 1,166 | 907 | 249 | 334 | 973 | 2,577 |
| Total | $3,015 | $1,102 | $492 | $528 | $1,070 | $3,840 |

## 6. Derivatives

At March 31, 2013

**Derivative transactions to which hedge accounting has not been applied**

(1) Currency-related transactions

At March 31, 2013

None

At March 31, 2014

No significant items to be reported.

(2) Interest rate-related transactions

At March 31, 2013

No significant items to be reported.

At March 31, 2014

No significant items to be reported.

**Derivative transactions to which hedge accounting has been applied**

(1) Currency-related transactions

At March 31, 2013

None

At March 31, 2014

Millions of yen

| Method of hedge accounting | Type of transaction | Hedge item | Contract amount | Contract amount of which due after one year | Fair value |
|---|---|---|---|---|---|
| Allocation for forward exchange contracts | Forward exchange contract | | | | |
| | Buying | | | | |
| | USD | Accounts payable | ¥1,686 | ¥ — | Note 2 |
| | USD | Future transactions | 2,551 | 1,030 | 763 |
| | EUR | Future transactions | 348 | 235 | 137 |
| Total | | | ¥4,585 | ¥1,264 | ¥901 |

Millions of U.S. dollars

| Method of hedge accounting | Type of transaction | Hedge item | Contract amount | Contract amount of which due after one year | Fair value |
|---|---|---|---|---|---|
| Allocation for forward exchange contracts | Forward exchange contract | | | | |
| | Buying | | | | |
| | USD | Accounts payable | $16 | $ — | Note 2 |
| | USD | Future transactions | 25 | 10 | 7 |
| | EUR | Future transactions | 3 | 2 | 1 |
| Total | | | $45 | $12 | $9 |

Notes: 1. Fair values are calculated based on prices offered by financial institutions.

2. Allocation for forward exchange contracts are accounted for together with accounts payable designated as the hedge item. Therefore, their fair values are included in the fair value of the accounts payable.

(2) Interest rate-related transactions

At March 31, 2013

None

At March 31, 2014

Millions of yen

| Method of hedge accounting | Type of transaction | Hedge item | Contract amount | Contract amount of which due after one year | Fair value |
|---|---|---|---|---|---|
| Exceptional treatment for interest rate swap | Interest rate swap Receive Float /Pay Fixed | Long-term loans payable | ¥10,000 | ¥— | Note 2 |
| Total | | | ¥10,000 | ¥— | ¥— |

Millions of U.S. dollars

| Method of hedge accounting | Type of transaction | Hedge item | Contract amount | Contract amount of which due after one year | Fair value |
|---|---|---|---|---|---|
| Exceptional treatment for interest rate swap | Interest rate swap Receive Float /Pay Fixed | Long-term loans payable | $97 | $— | Note 2 |
| Total | | | $97 | $— | $— |

Notes: 1. Fair values are calculated based on prices offered by financial institutions.
2. Exceptional treatment for interest rate swap is accounted for together with long-term loans payable designated as the hedge item. Therefore, their fair values are included in the fair value of the long-term loans payable.

## 7. Marketable Securities and Other Investments

At March 31, 2013
Market value and net unrealized gain or loss of quoted securities were as follows:

### Bonds intended to be held to maturity

Millions of yen

| | | Book value | Actual value | Difference |
|---|---|---|---|---|
| Bonds for which market value exceeds book value on consolidated balance sheets | National bonds and local bonds, etc. | ¥3,005 | ¥3,216 | ¥211 |
| | Bonds | — | — | — |
| | Others | — | — | — |
| | Subtotal | ¥3,005 | ¥3,216 | ¥211 |
| Bonds for which market value does not exceed book value on consolidated balance sheets | National bonds and local bonds, etc. | ¥ — | ¥ — | ¥ — |
| | Bonds | — | — | — |
| | Others | — | — | — |
| | Subtotal | ¥ — | ¥ — | ¥ — |
| Total | | ¥3,005 | ¥3,216 | ¥211 |

### Other securities

Millions of yen

| | | Book value | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | Stock | ¥65,900 | ¥10,353 | ¥55,547 |
| | Bonds | — | — | — |
| | Others | 87 | 78 | 9 |
| | Subtotal | ¥65,986 | ¥10,431 | ¥55,556 |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | Stock | ¥ 686 | ¥ 2,530 | ¥ (1,843) |
| | Bonds | — | — | — |
| | Others | — | — | — |
| | Subtotal | ¥ 686 | ¥ 2,530 | ¥ (1,843) |
| Total | | ¥66,673 | ¥12,960 | ¥53,712 |

Regarding unlisted equity securities, whose book value was ¥12,340 million for the year ended March 31, 2013, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

### Other securities sold

Millions of yen

| | Amount of sale | Total gain on sale | Total loss on sale |
|---|---|---|---|
| Stock | ¥8,457 | ¥1,050 | ¥— |

### Impairment of investment securities

For the year ended March 31, 2013, the Companies recognized an impairment of ¥410 million on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment loss was recognized in light of the possibility of recovery.

At March 31, 2014
Market value and net unrealized gain or loss of quoted securities were as follows:

### Bonds intended to be held to maturity

| | | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|
| | | Book value | Actual value | Difference | Book value | Actual value | Difference |
| Bonds for which market value exceeds book value on consolidated balance sheets | National bonds and local bonds, etc. | ¥3,004 | ¥3,180 | ¥176 | $29 | $31 | $ 2 |
| | Bonds | — | — | — | — | — | — |
| | Others | — | — | — | — | — | — |
| | Subtotal | ¥3,004 | ¥3,180 | ¥176 | $29 | $31 | $ 2 |
| Bonds for which market value does not exceed book value on consolidated balance sheets | National bonds and local bonds, etc. | ¥ — | ¥ — | ¥ — | $— | $— | $— |
| | Bonds | — | — | — | — | — | — |
| | Others | — | — | — | — | — | — |
| | Subtotal | ¥ — | ¥ — | ¥ — | $— | $— | $— |
| Total | | ¥3,004 | ¥3,180 | ¥176 | $29 | $31 | $ 2 |

### Other securities

| | | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|
| | | Book value | Acquisition cost | Difference | Book value | Acquisition cost | Difference |
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | Stock | ¥71,506 | ¥5,007 | ¥66,499 | $695 | $49 | $646 |
| | Bonds | — | — | — | — | — | — |
| | Others | 88 | 63 | 25 | 1 | 1 | 0 |
| | Subtotal | ¥71,594 | ¥5,070 | ¥66,524 | $696 | $49 | $646 |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | Stock | ¥ 30 | ¥ 35 | ¥ (5) | $ 0 | $ 0 | $ (0) |
| | Bonds | — | — | — | — | — | — |
| | Others | 21 | 21 | (0) | 0 | 0 | (0) |
| | Subtotal | ¥ 50 | ¥ 56 | ¥ (6) | $ 0 | $ 1 | $ (0) |
| Total | | ¥71,645 | ¥5,126 | ¥66,518 | $696 | $50 | $646 |

Regarding unlisted equity securities, whose book value was ¥17,134 million (U.S.$166 million) for the year ended March 31, 2014, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

### Other securities sold

| | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Amount of sale | Total gain on sale | Total loss on sale | Amount of sale | Total gain on sale | Total loss on sale |
| Stock | ¥10,145 | ¥6,884 | ¥0 | $99 | $67 | $0 |

### Impairment of investment securities

For the year ended March 31, 2014, the Companies recognized an impairment of ¥142 million (U.S.$1 million) on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment loss was recognized in light of the possibility of recovery.

## 8. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2013 and 2014 were ¥88,257 million and ¥95,256 million (U.S.$926 million), respectively and the annual average interest rates applicable to them for the years ended March 31, 2013 and 2014 were 0.27% and 0.29%, respectively.

Long-term debt at March 31, 2013 and 2014 consist of the following:

| | | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|---|
| | | 2013 | 2014 | 2014 |
| Unsecured straight bonds | | | | |
| Year ended March 31, 2013 | (Interest rates per annum: 0.713%–2.046%) | | | |
| | (Due: years ending March 31, 2013–2021) | ¥329,996 | ¥ — | $ — |
| Year ended March 31, 2014 | (Interest rates per annum: 0.713%–2.046%) | | | |
| | (Due: years ending March 31, 2014–2024) | — | 279,998 | 2,721 |
| General secured bonds (Notes) | | | | |
| Year ended March 31, 2013 | (Interest rates per annum: 3.20%) | | | |
| | (Due: year ending March 31, 2018) | 20,000 | — | — |
| Year ended March 31, 2014 | (Interest rates per annum: 3.20%) | | | |
| | (Due: year ending March 31, 2018) | — | 20,000 | 194 |
| Convertible bond-type bonds with subscription rights to shares (unsecured) | | | | |
| Year ended March 31, 2013 | (No interest shall be paid on the bonds) | | | |
| | (Due: year ending March 31, 2016) | 200,667 | — | — |
| Year ended March 31, 2014 | (No interest shall be paid on the bonds) | | | |
| | (Due: year ending March 31, 2016) | — | — | — |
| Total bonds | | ¥550,663 | ¥299,998 | $2,915 |
| Loans from banks | | | | |
| Year ended March 31, 2013 | (Average rate per annum: 1.26%) | | | |
| | (Due: years ending March 31, 2012–2021) | 325,543 | — | — |
| Year ended March 31, 2014 | (Average rate per annum: 1.26%) | | | |
| | (Due: years ending March 31, 2012–2021) | — | 638,707 | 6,206 |
| Other interest-bearing debt | | 13,190 | 51,006 | 496 |
| Subtotal | | ¥889,306 | ¥989,711 | $9,616 |
| Less, amount due within one year | | 176,436 | 233,504 | 2,269 |
| Total long-term debts | | ¥712,870 | ¥756,208 | $7,348 |

Note: The Company has secured overall assets as general collateral for the corporate bonds.

Summary of annual maturities of long-term debt subsequent to March 31, 2014 were as follows:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Year ended March 31 | 2014 | 2014 |
| 2015 | ¥233,504 | $2,269 |
| 2016 | 127,380 | 1,238 |
| 2017 | 58,992 | 573 |
| 2018 | 59,625 | 579 |
| 2019 and thereafter | 510,211 | 4,957 |
| Total | ¥989,711 | $9,616 |

### Pledged assets

The following table summarizes the book value of assets pledged as collateral for short-term loans and long-term debt, including current maturities of long-term debt of the subsidiaries at March 31, 2013 and 2014. In addition, the Company had secured overall assets as general collateral for the corporate bonds.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Machinery, etc. | ¥ 515 | ¥ 372 | $ 4 |
| Buildings and structures | 145 | 130 | 1 |
| Other property, plant and equipment | 46 | 1,009 | 10 |
| Investment securities | 672 | 892 | 9 |
| Stocks of subsidiaries and affiliates | 768 | 768 | 7 |
| Other investments and other assets | 28 | 78 | 1 |
| Cash and deposits | 162 | 200 | 2 |
| Short-term investment securities | 231 | 274 | 3 |
| Total | ¥2,567 | ¥3,722 | $36 |

(Assets denominated in foreign currencies included U.S.$11 million and other at March 31, 2013 and U.S.$12 million and others at March 31, 2014.)

Certain subsidiaries deposited their assets as guarantee under the requirement of fund settlement in Japanese laws. Deposited assets and its book values as of respective fiscal year end were as follows.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Investment securities | ¥3,005 | ¥3,004 | $29 |
| Cash and deposits | 2,300 | 2,500 | 24 |

Summary of annual maturities of long-term debt subsequent to March 31, 2013 and 2014 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Long-term loans payable | ¥ 894 | ¥22,874 | $222 |
| Short-term loans payable and current portion of noncurrent liabilities | 1,590 | 3,652 | 35 |
| Accounts payable | 165 | 202 | 2 |
| Total | ¥2,648 | ¥26,728 | $260 |

(Liabilities denominated in foreign currencies included U.S.$15 million at March 31, 2013 and U.S.$22 million at March 31, 2014.)

Note: The share of Kagoshima Mega Solar Power Corporation that has been accounted for under equity method was pledged for its bank loan.

## 9. Contingent Liabilities

At March 31, 2013 and 2014, the Companies' contingent liabilities were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Contingent liabilities existing in cable system supply contract | ¥ 4,703 | ¥ 5,146 | $ 50 |
| As a guarantor for | | | |
| Loan of UQ Communications Inc., etc. | 157,962 | 117,700 | 1,144 |
| Forward exchange contracts of Discovery Japan, Inc. | — | 3,689 | 36 |
| Total | ¥162,665 | ¥126,535 | $1,229 |

(Contingent liabilities denominated in foreign currencies included U.S.$50 million and others at March 31, 2013 and U.S.$97 million at March 31, 2014.)

## 10. Impairment Loss

**For the year ended March 31, 2013**

The Companies calculate impairment losses by asset group based on minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

In the year ended March 31, 2013, the Companies discontinued the use of former 800MHz frequency facilities in July 2012 in line with the reorganization of frequencies and drew up a plan for conversion to other frequencies on the shared portion of these facilities. Facilities not part of this conversion were determined to be idle assets that were expected to have no future value. The book value of these assets was reduced to their recoverable value, and the decrease was recorded as an impairment loss of ¥68,891 million. This consists of ¥29,456 million for buildings, ¥17,964 million for antenna facilities, ¥17,954 million for machinery and ¥3,516 million for others.

The recoverable amount of these assets is based on the estimated net selling price. The calculation of market value is based on reasonable estimate, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

For the year ended March 31, 2013, for domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥10,039 million. This consists of ¥6,213 million for local line facilities, ¥1,106 million for right of using submarine line facilities, ¥900 million for long-distance line facilities and ¥1,820 million for others.

Further, the recoverable amount of these assets is based on the estimated net selling price. The calculation of market value is based on appraised value and other factors, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

In addition, impairment loss of ¥1,620 million on business assets in certain subsidiaries was recognized. This consists of ¥1,049 million for machinery, ¥231 million for local line facilities and ¥339 million for others.

**For the year ended March 31, 2014**

The Companies calculated impairment loss by assets group according to minimum units that had identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

In the year ended March 31, 2014, for domestic transmission system with declining utilization rates and idle assets, the book value had been reduced to recoverable value. The said reduction was recognized as impairment loss of ¥8,542 million. This consists of ¥7,229 million for local line facilities, ¥939 million for machinery and ¥373 million for others.

Further, the recoverable amount for these assets is based on the estimated net selling price. The calculation of market value was based on appraised value and other factors, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

In addition, impairment loss of ¥154 million on business assets in certain subsidiaries was recognized as impairment loss. This consists of ¥87 million for software, ¥29 million for structures and ¥38 million for others.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| The Company and the other: Facilities for the former 800MHz band | ¥68,891 | ¥ — | $ — |
| The Company: Domestic transmission line facilities and idle assets, etc. | 10,039 | 8,542 | 83 |
| Consolidated subsidiaries: Business assets, etc. | 1,620 | 154 | 1 |
| Total | ¥80,549 | ¥8,696 | $84 |

## 11. Gain and Loss on Sales and Retirement of Noncurrent Assets

Gain and loss on sales and retirement of noncurrent assets for the years ended March 31, 2013 and 2014 were as follow:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Gain on Sales of Noncurrent Assets | | | |
| Gain on sales of real estate accompanying disposal of land, etc. | ¥ 325 | ¥ 9 | $ 0 |
| Gain on sale of other facilities, etc. | 264 | 291 | 3 |
| Total | ¥ 588 | ¥300 | $ 3 |
| Loss on Sales of Noncurrent Assets | | | |
| Loss on disposal of real estate accompanying disposal of land, etc. | ¥ 1,050 | ¥ 7 | $ 0 |
| Loss on disposal of other facilities, etc. | 28 | 371 | 4 |
| Total | ¥ 1,078 | ¥378 | $ 4 |
| Loss on Retirement of Noncurrent Assets | | | |
| Disposal cost of former 800MHz frequency facilities | ¥19,857 | ¥ — | $— |
| Retirement cost of former 800Mhz frequency facilities | 1,870 | — | — |
| Others | 985 | — | — |
| Total | ¥22,713 | ¥ — | $— |

## 12. Research and Development Expenses

Research and development expenses were ¥28,881 million and ¥24,086 million (U.S.$234 million) for the years ended March 31, 2013 and 2014, respectively.

Financials

## 13. Income Taxes

At March 31, 2013 and 2014, significant components of deferred tax assets and liabilities were summarized as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Deferred tax assets | | | |
| Depreciation and amortization | ¥ 40,235 | ¥ 26,070 | $ 253 |
| Allowance for doubtful accounts | 11,588 | 12,426 | 121 |
| Disposal of fixed assets | 1,823 | 6,279 | 61 |
| Inventory write down | 2,459 | 2,096 | 20 |
| Impairment loss | 60,011 | 39,594 | 385 |
| Provision for retirement benefits | 3,297 | — | — |
| Net defined benefit liability | — | 1,057 | 10 |
| Provision for bonuses | 8,588 | 10,588 | 103 |
| Accrued expenses | 4,024 | 6,005 | 58 |
| Net operating loss carried forward | 1,305 | 2,016 | 20 |
| Unrealized profits | 3,590 | 22,443 | 218 |
| Provision for point service program | 34,693 | 27,167 | 264 |
| Accrued enterprise taxes payable | 7,640 | 8,510 | 83 |
| Advances received | 19,490 | 14,469 | 141 |
| Deferred income | — | 9,293 | 90 |
| Loss on valuation of stocks of subsidiaries and affiliates | 3,849 | 9,507 | 92 |
| Other | 7,308 | 7,256 | 71 |
| Gross deferred tax assets | ¥209,898 | ¥ 204,777 | $ 1,990 |
| Valuation allowance | (8,980) | (14,806) | (144) |
| Total deferred tax assets | ¥200,918 | ¥ 189,971 | $ 1,846 |
| Deferred tax liabilities | | | |
| Special depreciation reserve | ¥ (1,737) | ¥ (3,052) | $ (30) |
| Valuation difference on other securities | (20,191) | (24,217) | (235) |
| Retained earnings for overseas affiliates | (2,217) | (4,501) | (44) |
| Gain on transfer from business divestitures | (1,692) | (1,692) | (16) |
| Identifiable intangible assets | — | (66,047) | (642) |
| Net defined benefit assets | — | (2,249) | (22) |
| Other | (4,668) | (7,037) | (68) |
| Total deferred tax liabilities | ¥ (30,506) | ¥(108,795) | $(1,057) |
| Net deferred tax assets | ¥170,413 | ¥ 81,176 | $ 789 |

The following table summarizes significant components of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2013 and 2014

| | 2013 | 2014 |
|---|---|---|
| Statutory tax rate | Omitted because the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate. | 38.0% |
| Adjustments: | | |
| Permanently non-deductible items including entertainment expenses | | 0.2 |
| Inhabitant tax on per capital levy | | 0.1 |
| Tax credit for research and development expenses | | (0.1) |
| Goodwill amortization | | 1.7 |
| Permanently non-deductible items including dividend income | | (0.2) |
| Valuation allowance | | 0.7 |
| Effect of change in tax rate | | 1.0 |
| Loss on step acquisitions | | 2.4 |
| Other | | (1.1) |
| Effective tax rate | | 42.7% |

Revisions in amounts of deferred tax assets and deferred tax liabilities due to the changes in the corporate tax rate

The “Act on Partial Revision of the Income Tax Act” (Act No. 10 of 2014) was promulgated on March 31, 2014, repealing the special reconstruction surtax from fiscal years beginning on or after April 1, 2014.

Accordingly, the statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities was reduced from 38.0% to 35.6%, resulting in a temporary difference in assets or liabilities extinguished in the fiscal year beginning April 1, 2014. This change in the tax rate had the effect of reducing deferred tax assets (net of deferred tax liabilities) by ¥4,713 million (U.S.$46 million), and increasing income taxes-deffered by that same amount.

## 14. Retirement Benefits

Year ended March 31, 2013

1. Outline of retirement benefit plans

The Companies have defined benefit pension plans, retirement lump-sum plans (unfunded) and defined contribution pension plans for the benefit payments of employees.

The Company and certain domestic consolidated subsidiaries apply the pension point systems under which pension benefits are calculated based on the accumulated points allocated to employees according to their class of positions and salaries. Further, a certain subsidiary has adapted a multi-employer pension fund.

2. Provision for retirement benefits

| | Millions of yen |
|---|---|
| Projected benefit obligations | ¥(309,628) |
| Plan assets | 291,107 |
| Retirement benefit trust | 8,268 |
| Funded status | (10,253) |
| Unrecognized actuarial (gain) loss | 4,039 |
| Unrecognized prior service cost | 6,114 |
| Net amount recognized in the consolidated balance sheets | (101) |
| Prepaid pension cost | 13,409 |
| Provision for retirement benefits | ¥ (13,509) |

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

3. Net pension expenses related to the retirement benefits

| | Millions of yen |
|---|---|
| Service cost | ¥10,989 |
| Interest cost | 6,137 |
| Expected return on plan assets | (5,075) |
| Amortization of prior service cost | (2,915) |
| Amortization of actuarial (gain) loss | 5,279 |
| Net pension cost | ¥14,414 |

4. Assumptions used in calculation of the above information

Basis of actuarial assumption at the end of the fiscal year

| | |
|---|---|
| Method of attributing the projected benefits over average remaining service period | Straight-line |
| Discount rate | 2.0% |
| Expected rate of return on plan assets | 2.0% |
| Average remaining service period | 14 years |
| Amortization of actuarial gain and loss | 14 years from the year following that in which they arise |

Multi-employer Pension Plans

Items relating to overall funded status of pension plan

| | Millions of yen<br>The Kanto IT Software Pension Fund<br>As at March 31, 2012*1 |
|---|---|
| Plan assets | ¥186,190 |
| Benefit obligation based on pension financing calculation | 186,649 |
| Balance*2 | ¥ (459) |

Percentage of total pension plan accounted for by contributions from the subsidiary

| The Kanto IT Software Pension Fund<br>(For the year ended March 31, 2013) |
|---|
| 0.09%*3 |

Notes: *1. Items relating to overall funded status of pension plans are based on the information as at March 31, 2012 (the most recently available year-end result).

*2. The principle factors relating to the balance were composed of general reserve of ¥3,330 million, actuarial asset value adjustment of (¥9,623) million and shortage of ¥13,412 million. For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2012).

*3. The percentage does not match the actual amount contributed by the subsidiary.

Financials

Year ended March 31, 2014

1. Outline of retirement benefit plans

The Companies have defined benefit pension plans, retirement lump-sum plans (unfunded) and defined contribution pension plans for the benefit payments of employees.

The Company and certain domestic consolidated subsidiaries apply the pension point systems under which pension benefits are calculated based on the accumulated points allocated to employees according to their class of positions and salaries.

Certain subsidiaries have adopted multi-employer pension plans of the Kanto IT Software Pension Fund and the Sumitomo Rengo Corporation Pension Fund, which are defined benefit type of pension plans. Contributions to the said pension plans are recognized as net pension costs as well as contribution of the defined contribution plans.

Further, net defined liabilities and net pension expenses of retirement lump-sum plans which certain subsidiaries operate are calculated using the simplified method.

2. Defined benefit plans

Change in benefit obligations

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Defined benefit obligation at beginning of year | ¥309,628 | $3,008 |
| Service cost | 10,697 | 104 |
| Interest cost | 6,148 | 60 |
| Actuarial (gain) loss | 2,696 | 26 |
| Benefit paid | (11,582) | (113) |
| Other | 156 | 2 |
| Defined benefit obligations at end of year | ¥317,744 | $3,087 |

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

Change in plan assets

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Plan assets at beginning of year | ¥299,375 | $2,909 |
| Expected return on plan assets | 5,822 | 57 |
| Actuarial (gain) loss | 18,269 | 178 |
| Companies contributions | 15,211 | 148 |
| Termination of retirement benefit trust | (8,439) | (82) |
| Benefits paid | (9,740) | (95) |
| Other | 9 | 0 |
| Plan assets at end of year | ¥320,507 | $3,114 |

Reconciliation of defined benefit obligation and plan assets, and net defined liability and net defined asset in the balance sheet

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Defined benefit obligations (funded) | ¥ 301,821 | $ 2,933 |
| Plan assets | (320,507) | (3,114) |
| | (18,686) | (182) |
| Defined benefit obligations (unfunded) | 15,923 | 155 |
| Net liability (asset) recognized in the balance sheet | (2,763) | (27) |
| Net defined benefit liability | 17,340 | 168 |
| Net defined benefit (asset) | (20,103) | (195) |
| Net liability (asset) recognized in the balance sheet | ¥ (2,763) | $ (27) |

Retirement benefit expenses

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Service cost | ¥10,697 | $104 |
| Interest cost | 6,148 | 60 |
| Expected return on plan assets | (5,822) | (57) |
| Amortization of actuarial (gain) loss | 2,992 | 29 |
| Amortization of prior service costs | 1,191 | 12 |
| Net retirement benefit expenses | ¥15,207 | $148 |

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

Remeasurements of defined benefit plans (before deducting tax effect)

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Unrecognized past service costs | ¥(4,922) | $ (48) |
| Unrecognized actuarial (gain) loss | 14,683 | 143 |
| Total | ¥ 9,761 | $ 95 |

Plan assets

a. Ratios of major asset components to total plan assets

| | |
|---|---|
| Bonds | 62% |
| Equity securities | 15% |
| Others | 23% |
| Total | 100% |

b. Assumption of long-term expected rate of return on plan assets

The Companies consider the allocation of the current and future plan assets as well as the rate of long-term expected return at present and in the future comprising from the various assets in determining long-term expected rate of plan assets.

Basis of calculation of actuarial assumption

Basis of actuarial assumption at the end of year

| | |
|---|---|
| Discount rate | 2.0% |
| Long term expected rate of return on plan assets | 2.0% |

### 3. Defined contribution plans

The amount to be paid by the Companies to the defined contribution plans including the multi-employer pension plans is ¥2,948 million (U.S.$29 million)

### 4. Multi-employer benefit plans

Items relating to overall funded status of pension plan;

Millions of yen

| | The Kanto IT Software Pension Fund As at March 31, 2013*1 | The Sumisho Rengo Corporate Pension Fund As at March 31, 2013*1 |
|---|---|---|
| Plan assets | ¥222,957 | ¥31,351 |
| Benefit obligation based | 206,135 | 30,323 |
| Balance*2 | ¥ 16,821 | ¥ 1,028 |

Millions of U.S. dollars

| | The Kanto IT Software Pension Fund As at March 31, 2013*1 | The Sumisho Rengo Corporate Pension Fund As at March 31, 2013*1 |
|---|---|---|
| Plan assets | $2,166 | $305 |
| Benefit obligation based | 2,003 | 295 |
| Balance*2 | $ 163 | $ 10 |

Percentage of total pension plan accounted for by contribution from those subsidiaries.

| The Kanto IT Software Pension Fund (For the year ended March 31, 2014) | The Sumisho Rengo Corporate Pension Fund (For the year ended March 31, 2013)*1 |
|---|---|
| 1.1%*3 | 43.4%*3 |

Notes: *1. Items relating to overall funded status of pension plan are based on the information as at March 31, 2013 (the most recently available year-end result).

*2. The Kanto IT Software Pension Fund

The principle factors relating to the balance were composed of shortage of ¥10,082 million (U.S.$98 million) and general reserve of ¥26,904 million (U.S.$261 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2013).

The Rengo Corporation Pension Fund

The principle factors relating to the balance were composed of general reserve of ¥2,468 million (U.S.$24 million), unamortized prior service costs of ¥1,440 million (U.S.$14 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 4 years and 6 months (from October 1, 2009 to March 31, 2014).

*3. The percentage does not match the actual amount contributed by those subsidiaries.

## 15. Consolidated Statements of Comprehensive Income

The comprehensive income for the years ended March 31, 2013 and 2014 were as follows.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Valuation difference on available-for-sale securities | | | |
| Amount recognized in the period | ¥ 128 | ¥19,759 | $192 |
| Amount of recycling | 1,005 | (8,215) | (80) |
| Before income tax effect adjustment | 1,133 | 11,544 | 112 |
| Amount of income tax effect | (422) | (4,045) | (39) |
| Valuation difference on available-for-sale securities, net of tax effect | ¥ 711 | ¥ 7,499 | $ 73 |
| Deferred gains or losses on hedges | | | |
| Amount recognized in the period | — | 599 | 6 |
| Amount of recycling | — | (529) | (5) |
| Before income tax effect adjustment | — | 70 | 1 |
| Amount of income tax effect | — | (29) | 0 |
| Deferred gains or losses on hedges | ¥ — | ¥ 41 | $ 0 |
| Foreign currency translation adjustments | | | |
| Amount recognized in the period | 12,158 | 25,444 | 247 |
| Amount of recycling | — | — | — |
| Before income tax effect adjustment | 12,158 | 25,444 | 247 |
| Amount of income tax effect | (95) | — | — |
| Foreign currency translation adjustments, net of tax effect | ¥12,063 | ¥25,444 | $247 |
| Share of other comprehensive income of associates accounted for using equity method | | | |
| Amount recognized in the period | 1,221 | 46 | 0 |
| Amount of recycling | 121 | (529) | (5) |
| Share of other comprehensive income of associates accounted for using equity method, net of tax effect | 1,342 | (483) | (5) |
| Total other comprehensive income | ¥14,115 | ¥32,501 | $316 |

## 16. Stock Options

Since September 2002, a stock option system has been in place in the Company. The Company granted stock options to Members of the Board of Directors, Vice Presidents, Executive Directors, Advisers, Corporate Auditors and employees and directors of wholly owned subsidiaries.

Also, DMX Technologies Group Limited (“DMX”), Wire and Wireless Co., Ltd. (“Wi2”) and ScaleOut Inc. (“ScaleOut”), consolidated subsidiaries of the Company, adopted their own stock option systems.

DMX granted stock options to Members of the Board of Directors and employees of DMX and its group companies. Wi2 granted stock options to Members of the Board of Directors, employees and shareholders of Wi2. ScaleOut granted stock options to Members of the Board of Directors, employees and shareholders of ScaleOut.

Due to the nullification of rights, gains on reversal of subscription rights for the years ended March 31, 2013 and 2014 were ¥512 million and ¥101 million (U.S.$1 million), respectively.

### Estimation of fair value of stock options

Consolidated subsidiary ScaleOut Inc. is an unlisted company and consequently, the fair value of the 1st stock option of ScaleOut granted in January, 2013 was estimated by computing the intrinsic value.

Valuation of stock’s price per share which is the basis of estimation of this intrinsic value is based on the price calculated using the discounted cash flow method.

The total intrinsic value of option was ¥0 as at March 31, 2014.

### Estimation of number of stock options to be vested

The number of stock options to be vested was estimated based on the number of forfeited shares calculated using employee turnover rate for the corresponding period.

### Scale of Stock ptions and changes in the scale

The following lists the number of shares calculated for the number of stock options that existed in the year ended March 31, 2014.

(1) Number of stock options

The Company

| | Shares |
|---|---|
| | August 2009<br>8th Stock Option |
| Before vested | |
| Beginning of period | — |
| Granted | — |
| Forfeited | — |
| Vested | — |
| Unvested | — |
| After vested | |
| Beginning of period | 881,800 |
| Vested | — |
| Exercised | 761,800 |
| Expired | 120,000 |
| Exercisable | — |

Note: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013, and stock options have been converted into equivalent numbers of shares and presented accordingly.

DMX

| | Shares | | |
|---|---|---|---|
| | October 2003 Stock Option | April 2008 Stock Option | November 2008 Stock Option |
| Before vested | | | |
| Beginning of period | — | — | — |
| Granted | — | — | — |
| Forfeited | — | — | — |
| Vested | — | — | — |
| Unvested | — | — | — |
| After vested | | | |
| Beginning of period | 3,305,544 | 3,886,858 | 11,911,000 |
| Vested | — | — | — |
| Exercised | — | — | 2,450,000 |
| Expired | 3,305,544 | — | — |
| Exercisable | — | 3,886,858 | 9,461,000 |

Wi2

| | Shares |
|---|---|
| | December 2009 Stock Option |
| Before vested | |
| Beginning of period | 1,342 |
| Granted | — |
| Forfeited | 1,342 |
| Vested | — |
| Unvested | — |
| After vested | |
| Beginning of period | — |
| Vested | — |
| Exercised | — |
| Expired | — |
| Exercisable | — |

ScaleOut

| | Shares |
|---|---|
| | January 2013, 1st Stock Option |
| Before vested | |
| Beginning of period | — |
| Granted | — |
| Forfeited | — |
| Vested | — |
| Unvested | — |
| After vested | |
| Beginning of period | 95 |
| Vested | — |
| Exercised | — |
| Expired | — |
| Exercisable | 95 |

Note: Figures indicated in beginning of period, state the remaining number of shares for ScaleOut Inc. – which became a consolidated subsidiary during the fiscal year – at the point of newly consolidated.

(2) Unit value and exercise period of respective stock options

The Company

| | | August 2008 8th Stock Option | |
|---|---|---|---|
| | | Yen | U.S. dollars |
| Exercise price | | ¥2,695 | $26.19 |
| Average share price at exercise | | 4,941 | 48.01 |
| Fair value unit price (Date of grant) | | 556.41 | 5.41 |
| Exercise period | From | October 1, 2011 | |
| | To | September 30, 2013 | |

Note: Number of the stock options has been retroactively adjusted based on the 1 : 2 stock split effectively on April 1, 2013.

DMX

| | | October 2003 Stock Option | | April 2008 Stock Option | | November 2008 Stock Option | |
|---|---|---|---|---|---|---|---|
| | | Singapore dollars | U.S. dollars | Singapore dollars | U.S. dollars | Singapore dollars | U.S. dollars |
| Exercise price | | SGD 0.6778 | $0.54 | SGD 0.2260 | $0.18 | SGD 0.0930 | $0.07 |
| Average share price at exercise | | — | — | — | — | 0.2450 | 0.19 |
| Fair value unit price (Date of grant) | | 0.7900 | 0.63 | 0.2500 | 0.20 | 0.0900 | 0.07 |
| Exercise period | From | October 2, 2004 | | April 24, 2009 | | November 27, 2009 | |
| | To | May 26, 2013 | | April 26, 2018 | | November 28, 2018 | |

Note: Exchange rate of Singapore dollars into U.S. dollars were made as follows: SGD1=¥81.90, U.S.$1=¥102.92

Wi2

| | | December 2009 Stock Option | December 2009 Stock Option |
|---|---|---|---|
| | | Yen | U.S. dollars |
| Exercise price | | ¥24,000 | $233.19 |
| Average share price at exercise | | — | — |
| Fair value unit price (Date of grant) | | — | — |
| Exercise period | From | December 1, 2011 | |
| | To | October 29, 2019 | |

ScaleOut

| | | January 2013 1st Stock Option | January 2013 1st Stock Option |
|---|---|---|---|
| | | Yen | U.S. dollars |
| Exercise price | | ¥200,000 | $1,943.26 |
| Average share price at exercise | | — | — |
| Fair value unit price (Date of grant) | | — | — |
| Exercise period | From | January 2, 2013 | |
| | To | January 1,2020 | |

## 17. Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2013

(1) Total number and type of shares and treasury stock outstanding

| | As of April 1, 2012 | Increase during the year ended March 31, 2013 | Decrease during the year ended March 31, 2013 | As of March 31, 2013 |
|---|---|---|---|---|
| Shares outstanding | | | | |
| Common stock | 4,484,818 | 443,996,982 | — | 448,481,800 |
| Total | 4,484,818 | 443,996,982 | — | 448,481,800 |
| Treasury stock | | | | |
| Common stock | 663,006 | 65,637,894 | 31,500 | 66,269,400 |
| Total | 663,006 | 65,637,894 | 31,500 | 66,269,400 |

Notes 1: The Company conducted a 1:100 stock split on common stock with an effective date of October 1, 2012.
2: The increase of 443,996,982 shares during the fiscal year was due to split on common stock.
3: The increase of 65,637,894 shares in the Company's common stock was due to split on common stock 65,637,594 shares and due to purchase of share less than one unit 300 shares.
4: The decrease of 31,500 shares in the Company's common stock resulted from the exercise of stock options.
5: The subscription warrants were not bifurcated with the convertible bond–type bonds

(2) Subscription warrants and own share option

| | Breakdown of subscription warrants | Types of shares subject to subscription warrants | Number of shares subject to subscription warrants: As of April 1, 2012 | Increase during the year ended March 31, 2013 | Decrease during the year ended March 31, 2013 | As of March 31, 2013 | Balance as of March 31, 2013 |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| The Company (parent company) | Subscription warrants as stock options | — | | — | | | ¥491 |
| | Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)Note | Common stock | 348,979 shares Upper limit | 34,548,944 shares Upper limit | — | 34,897,923 shares Upper limit | — |
| Consolidated subsidiaries | Subscription warrants as stock options | — | | — | | | 83 |
| Total | | — | — | — | — | — | ¥574 |

Notes: Zero Coupon Convertible Bonds due 2015 (issued on December 14, 2011)
1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.
2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.
3: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.
4: The increase in the number of shares was due to split on common stock.

(3) Dividends
1. Cash dividends payments

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 20, 2012 Annual meeting of shareholders | Common stock | ¥32,485 | ¥8,500 | March 31, 2012 | June 21, 2012 |
| October 24, 2012 Meeting of the Board of Directors | Common stock | ¥32,485 | ¥8,500 | September 30, 2012 | November 20, 2012 |

2. Dividend payment recognized during the fiscal year ended March 31, 2013 but effective on the next fiscal year ended March 31, 2014

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividend resource | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 19, 2013 Annual meeting of shareholders | Common stock | ¥36,310 | Retained earnings | ¥95 | March 31, 2013 | June 20, 2013 |

Note: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012. Dividends per share were calculated including the effect on this stock split.

For the year ended March 31, 2014
(1) Total number and type of shares and treasury stock outstanding

| | As of April 1, 2013 | Increase during the year ended March 31, 2014 | Decrease during the year ended March 31, 2014 | As of March 31, 2014 |
|---|---|---|---|---|
| Shares outstanding | | | | |
| Common stock | 448,481,800 | 448,481,800 | — | 896,963,600 |
| Total | 448,481,800 | 448,481,800 | — | 896,963,600 |
| Treasury stock | | | | |
| Common stock | 66,269,400 | 66,273,882 | 70,558,334 | 61,984,948 |
| Total | 66,269,400 | 66,273,882 | 70,558,334 | 61,984,948 |

Notes 1: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
2: The increase of 448,481,800 shares during the fiscal year was due to split on common stock.
3: The increase of 66,273,882 shares in the Company's common stock was due to split on common stock 66,269,400 shares and due to purchase of share less than one unit 4,482 shares.
4: The decrease of 70,558,334 shares in the Company's common stock resulted from the exercise of stock options 761,800 shares, the exercise of convertible bonds with subscription warrants 69,795,731 shares and the sales of 803 fractional shares less than one investment unit.

(2) Subscription warrants and own share option

| | Breakdown of subscription warrants | Types of shares subject to subscription warrants | Number of shares subject to subscription warrants: As of April 1, 2013 | Increase during the year ended March 31, 2014 | Decrease during the year ended March 31, 2014 | As of March 31, 2014 | Balance as of March 31, 2014: Millions of yen | Millions of U.S. dollars |
|---|---|---|---|---|---|---|---|---|
| The Company (parent company) | Subscription warrants as stock options | — | — | | | | ¥— | $— |
| | Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) Note | Common stock | 34,897,923 shares Upper limit | 34,897,923 shares Upper limit | — | 69,795,731 shares Upper limit | — | — |
| Consolidated subsidiaries | Subscription warrants as stock options | — | — | | | | 40 | 0 |
| Total | | — | — | — | — | — | ¥40 | $0 |

Notes: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)
1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.
2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.
3: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
4: The increase in the number of shares was due to split on common stock.
5: The decrease in the number of shares was due to exercise of convertible bonds with subscription warrants.

(3) Dividends

1. Cash dividends payments

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 19, 2013 Annual meeting of shareholders | Common stock | ¥36,310 | ¥95 | March 31, 2013 | June 20, 2013 |
| October 28, 2013 Meeting of the Board of Directors | Common stock | ¥49,585 | ¥60 | September 30, 2013 | November 27, 2013 |

| Resolution | Type of shares | Total dividends (Millions of U.S. dollars) | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 19, 2013 Annual meeting of shareholders | Common stock | $353 | $0.92 | March 31, 2013 | June 20, 2013 |
| October 28, 2013 Meeting of the Board of Directors | Common stock | $482 | $0.58 | September 30, 2013 | November 27, 2013 |

2. Dividend payment recognized during the fiscal year ended March 31, 2014 but effective on the next fiscal year ended March 31, 2015

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividend resource | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 18, 2014 Annual meeting of shareholders | Common stock | ¥58,449 | Retained earnings | ¥70 | March 31, 2014 | June 19, 2014 |

| Resolution | Type of shares | Total dividends (Millions of U.S. dollars) | Dividend resource | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 18, 2014 Annual meeting of shareholders | Common stock | $568 | Retained earnings | $0.68 | March 31, 2014 | June 19, 2014 |

Note: The Company conducted a 1:2 stock split on common stock, with an effective date of  April 1, 2013. Dividends per share were calculated including the effect on this stock split.

## 18. Business Combination

Business combination through acquisition I

On April 17, 2013, the Company acquired an additional 644,115 shares in Jupiter Telecommunications Co., Ltd. ("J:COM")through public tender and as a result, the Company's voting rights to J:COM came to 40.47%. In accordance with effective control standards, J:COM was converted to a consolidated subsidiary.

### 1. Overview of business combination

a. Name of acquired company
Jupiter Telecommunications Co., Ltd.

b. Business activities of acquired company
Cable TV broadcast and telecommunications business through supervision and operation of cable TV stations, supervision of programming business for Cable TV stations and digital satellite and broadcasters etc.

| | Millions of yen |
|---|---|
| Operating revenues (Note) | ¥376,835 |
| Net income attributable to J:COM | 41,623 |
| Total J:COM shareholders' equity | 454,547 |
| Total assets | 812,030 |

Note: As of December 31, 2012 (J:COM annual report (the 19th period))
J:COM prepared consolidated financial statements based on accounting principles generally accepted in the United States of America.

c. Main reasons for the business combination
The Company acquired additional shares in J:COM and converted this company to a consolidated subsidiary considering for a potential business combination with consolidated subsidiary JAPAN CABLENET LIMITED, (merged with J:COM as of the date of submission of these financial statements) thereby expanding the customer base of the cable TV business, and integrating J:COM's media business with the Company's telecommunications business. These approaches are in line with efforts to increase synergies under the Company's growth strategy, the "3M Strategy."

d. Date of business combination
April 17, 2013 (Date of commencement of TOB settlement)

e. Legal form of business combination
Acquisition of shares

f. Name of company after business combination
Jupiter Telecommunications Co., Ltd.

g. Acquisition of voting rights
Voting rights held before the business combination: 31.08%
Additional voting rights acquired on the day of the business combination: 9.38%
Voting rights after the acquisition: 40.47%

NJ Corporation (merged with J:COM as of the date of submission of these financial statements), in which the Company and Sumitomo Corporation hold the same number of voting rights, acquired 553,679 shares (voting rights of 8.09%) through this tender offer. Accordingly, the Company held 4.05% of the voting rights indirectly through NJ Corporation.

h. Main factors in determination of acquirer
As the type of consideration was cash, the Company, which provided the cash, was determined to be the acquirer.

### 2. Period for which the acquired company's results are included in the consolidated statements of income

April 1, 2013 was deemed to be the acquisition date, and accordingly results for the period from April 1, 2013 to March 31, 2014 were included.

### 3. Acquisition cost and breakdown

The following table summarizes the cost incurred in conjunction with the business combination.

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Consideration for acquisition | | |
| Market value of J:COM's shares held prior to the business combination | ¥281,264 | $2,733 |
| Market value of J:COM's shares acquired on the date of the business combination | 79,226 | 770 |
| Expenses directly related to the acquisition | 827 | 8 |
| Acquisition cost | ¥361,317 | $3,511 |

Consideration for acquisition also includes an administration trust portion of ¥18,807 million (U.S.$183 million) attached to a securities administration trust.

### 4. Difference between the acquisition cost of the acquired company and the total amount of the acquisition costs arising from transactions

Loss on step acquisition ¥38,458 million (U.S.$374 million)

### 5. Amount of goodwill generated, reason for generation and amortization

a. Amount of goodwill generated
¥219,735 million (U.S.$2,135 million)

b. Reason for generation
Additional future earnings capacity expected as a result of future operational development by the acquired company.

c. Amortization
Straight-line method over a period of 20 years.

### 6. Amount and general breakdown of assets acquired and liabilities assumed on the date of the business combination

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Noncurrent assets | ¥548,288 | $5,327 |
| Current assets | 125,900 | 1,223 |
| Total assets | 674,188 | 6,551 |
| Noncurrent liabilities | 176,473 | 1,715 |
| Current liabilities | 138,156 | 1,342 |
| Total liabilities | 314,628 | 3,057 |

**7. Other**

As indicated in the "Notice of a Tender Offer for Shares in Jupiter Telecommunications Co., Ltd." ("(5) Policies on Restructuring following This Tender Offer (in Other Words, Items related to the Two-Step Acquisition)") announced on October 24, 2012, by the Company and Sumitomo Corporation, all shares subject to call were acquired on August 2, 2013, and J:COM conducted a merger of NJ Corporation on November 1, 2013. Consequently, the Company's voting rights in J:COM amount to 50%.

Goodwill of ¥35,535 million (U.S. $345 million) was generated as a result of the above.

Business combination through acquisition II

The Company's consolidated subsidiary, Jupiter Telecommunications Co., Ltd. ( "J:COM") conducted a merger with NJ Corporation ( "NJ"), an equity-method affiliate of the Company, on November 1, 2013.

**1. Overview of business combination**

a. Name of acquired company
NJ Corporation

b. Businesses of the acquired company
Special-purpose company:
Based on a shareholders' agreement regarding joint operation of J:COM entered into at Board of Directors' meetings of the Company and Sumitomo Corporation on October 24, 2012, NJ was established with the objective of making a tender offer jointly with the Company for common stock and subscription rights to shares issued by J:COM, with the Company and Sumitomo Corporation each having equal voting rights in NJ.

c. Main reason for conducting a business combination
This business combination is one procedure in a series of transactions to acquire all issued and outstanding shares of J:COM (excluding, however, treasury stock held by J:COM), as publicized in the "Notice of a Tender Offer for Shares in Jupiter Telecommunications Co., Ltd." announced by the Company and Sumitomo Corporation on October 24, 2012.

d. Date of the business combination
November 1, 2013

e. Legal form of the business combination
Merger with cash as consideration

f. Name of the company following the business combination
Jupiter Telecommunications Co., Ltd.

g. Primary grounds leading to a decision of the acquiring company
As the type of consideration is cash, the company delivering this cash—J:COM—was specified as the acquiring company.

**2. Period for financial results of the acquired company included in the consolidated financial statements**

From November 1, 2013 to March 31, 2014

**3. Acquisition cost**

Consideration for acquisition ¥518 million (U.S.$5 million)

**4. Amount of goodwill generated and reason for generation**

No goodwill was generated.

**5. Amount and general breakdown of assets acquired and liabilities assumed on the date of the business combination**

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Noncurrent assets | ¥161,346 | $1,568 |
| Current assets | 570 | 6 |
| Total assets | 161,916 | 1,573 |
| Current liabilities | 161,398 | 1,568 |
| Total liabilities | 161,398 | 1,568 |

**6. Impact on the consolidated statements of income for the fiscal year based on the assumption that the business combination was completed on the beginning day of the fiscal year**

This information has been omitted, as a rough estimate of this impact is insignificant.

Financials

## 19. Related Party Transaction

Year ended March 31, 2013

Transactions with related parties

Affiliates of the Company

Millions of yen

| Type | Company Name | Head Office | Capital Stock | Business Objective | Percentage for Possession of Voting Rights | Relationship with Related Party | Contents of Transaction | Amount for Transaction | Title of Account | Amount as of March 31, 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity-method affiliate | UQ Communi-cations Inc. | Minato-ku, Tokyo | 23,925 | Wireless broadband service | Direct ownership interest of 32.3% | Guarantee of loans | Guarantee* | ¥157,800 | — | ¥— |
| | | | | | | Concurrent director | Receiving fee for the guarantee | ¥329 | Account receivable | ¥79 |

Year ended March 31, 2014

Transactions with related parties

Affiliates of the Company

Millions of yen / (Millions of U.S. dollars)

| Type | Company Name | Head Office | Capital Stock | Business Objective | Percentage for Possession of Voting Rights | Relationship with Related Party | Contents of Transaction | Amount for Transaction | Title of Account | Amount as of March 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity-method affiliate | UQ Communi-cations Inc. | Minato-ku, Tokyo | 71,425 | Wireless broadband service | Direct ownership interest of 32.3% | Guarantee of loans | Guarantee* | ¥117,700 (U.S.$1,144) | — | ¥— (U.S.$—) |
| | | | | | | Concurrent director | Receiving fee for the guarantee | ¥256 (U.S.$2) | Account receivable | ¥58 (U.S.$1) |

## 20. Segment Information

Segment information for the years ended March 31, 2013 and 2014 were as follows:

### 1. Outline of Reportable Business Segments

The reportable business segments are the business units for which the chief operating decision maker is able to obtain respective financial information separately in order for the Board of Directors, etc., to evaluate regularly in determining how to allocate resources and assess their business performance.

The Companies have formulated the “3M Strategy,” a growth strategy for domestic business, and the “Global Strategy,” aimed at expanding overseas business, on the basis of its three commitments: “More Connected,” “More Diverse Values,” and “More Global.” To aid in promoting these strategies, the Companies categorize its business into four reportable categories: “Personal Services,” “Value Services,” “Business Services,” and “Global Services.”

Note: 3M stands for Multi-network, Multi-device, and Multi-use. The 3M Strategy is the Companies’ business strategy for enabling the use of its wide-ranging content and services such as music, videos, ebooks and games. The strategy calls for these to be made available over the Companies’ organically linked mobile phone, FTTH, CATV, WiMAX, Wi-Fi, and other networks (Multi-network); to be available on a host of devices such as smartphones, tablet computers, ebook readers and PCs (Multi-device); and for them to be available for use in the manner the customer requires (Multi-use), conveniently at any place and at any time.

In “Personal Services,” the Companies provide households and individual customers with mobile handset sales and other services in addition to a variety of communications services. In “Value Services,” we provide households and individual customers with various types of applications, music and video, as well as electronic money services and other services. In “Business Services,” we provide various types of communication services, mobile handset sales, data center services, various types of ICT solution/cloud services, and other services for corporate customers. In “Global Services,” we provide various types of communications services, data center services, various types of ICT solution/cloud services, and other services for companies and individuals overseas.

### 2. Method of Calculating Sales and Income (Loss), Identifiable Assets, and Other Items by Reportable Business Segment

Accounting method for reportable business segment is the same as presentations on “Basis of Presenting Consolidated Financial Statements.”

Income by reportable business segments are calculated based on operating income.

Intersegment trading prices are calculated based on third-party trading prices or determined by negotiating prices that take overall costs into consideration.

Assets are not allocated to reportable segments.

## 3. Information on Sales and Income (loss), Identifiable Assets, and Other Items by Reportable Business Segment

### Year ended March 31, 2013

Millions of yen

| | Reportable Business Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Subtotal | Other (Note 1) | Total | Elimination and Corporate (Note 2) | Consolidated |
| Sales | | | | | | | | | |
| Outside sales | ¥2,763,486 | ¥109,948 | ¥572,269 | ¥174,823 | ¥3,620,526 | ¥ 41,763 | ¥3,662,289 | ¥ — | ¥3,662,289 |
| Intersegment sales | 74,479 | 31,951 | 66,068 | 32,479 | 204,977 | 102,459 | 307,436 | (307,436) | — |
| Total | ¥2,837,965 | ¥141,899 | ¥638,337 | ¥207,302 | ¥3,825,503 | ¥144,222 | ¥3,969,725 | ¥(307,436) | ¥3,662,289 |
| Income by business segment | ¥ 378,604 | ¥ 41,888 | ¥ 79,830 | ¥ 7,830 | ¥ 508,152 | ¥ 4,894 | ¥ 513,045 | ¥ (376) | ¥ 512,669 |
| Other items | | | | | | | | | |
| Depreciation[3] | 342,407 | 6,922 | 46,261 | 10,842 | 406,432 | 1,682 | 408,115 | (1,388) | 406,726 |
| Amortization of goodwill | 11,235 | 1,733 | 981 | 2,495 | 16,444 | — | 16,444 | — | 16,444 |

Notes: 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of long-term prepaid expenses.

### Year ended March 31, 2014

Millions of yen

| | Reportable Business Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Subtotal | Other (Note 1) | Total | Elimination and Corporate (Note 2) | Consolidated |
| Sales | | | | | | | | | |
| Outside sales | ¥3,288,658 | ¥164,629 | ¥598,385 | ¥228,968 | ¥4,280,640 | ¥ 52,988 | ¥4,333,628 | ¥ — | ¥4,333,628 |
| Intersegment sales | 79,193 | 47,894 | 76,527 | 34,657 | 238,270 | 97,030 | 335,300 | (335,300) | — |
| Total | ¥3,367,851 | ¥212,522 | ¥674,912 | ¥263,625 | ¥4,518,910 | ¥150,019 | ¥4,668,929 | ¥(335,300) | ¥4,333,628 |
| Income by business segment | ¥ 507,184 | ¥ 51,607 | ¥ 86,464 | ¥ 11,408 | ¥ 656,663 | ¥ 7,093 | ¥ 663,756 | ¥ (511) | ¥663,245 |
| Other items | | | | | | | | | |
| Depreciation[3] | 403,610 | 9,897 | 42,990 | 12,170 | 468,667 | 1,455 | 470,122 | (24) | 470,098 |
| Amortization of goodwill | 22,465 | 2,021 | — | 3,635 | 28,120 | 134 | 28,255 | — | 28,255 |

Millions of U.S. dollars

| | Reportable Business Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Subtotal | Other (Note 1) | Total | Elimination and Corporate (Note 2) | Consolidated |
| Sales | | | | | | | | | |
| Outside sales | $31,954 | $1,600 | $5,814 | $2,225 | $41,592 | $ 515 | $42,107 | $ — | $42,107 |
| Intersegment sales | 769 | 465 | 744 | 337 | 2,315 | 943 | 3,258 | (3,258) | — |
| Total | $32,723 | $2,065 | $6,558 | $2,561 | $43,907 | $1,458 | $45,365 | $(3,258) | $42,107 |
| Income by business segment | $ 4,928 | $ 501 | $ 840 | $ 111 | $ 6,380 | $ 69 | $ 6,449 | $ (5) | $ 6,444 |
| Other items | | | | | | | | | |
| Depreciation[3] | 3,922 | 96 | 418 | 118 | 4,554 | 14 | 4,568 | (0) | 4,568 |
| Amortization of goodwill | 218 | 20 | — | 35 | 273 | 1 | 275 | — | 275 |

Notes: 1.The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of long-term prepaid expenses.

## 4. Relative Information

(1) Products and services information

Products and services information was not shown since the same information was disclosed in the segment information.

(2) Geographic segment information

1. Sales

Sales information by geographic segment was not shown since sales in Japan accounted for over 90% of operating revenue on the consolidated statements of income.

2. Property, plant and equipment

Property, plant and equipment information by geographic segment was not shown since property, plant and equipment in Japan accounted for over 90% of property, plant and equipment on the consolidated balance sheets.

(3) Information by major clients

Information by major clients was not presented since no individual clients accounted for greater than 10% of operating revenue on the consolidated statements of income.

## 5. Information on Impairment Loss on Property, Plant, and Equipment by Business Segment

Year ended March 31, 2013

The Companies do not allocate impairment losses to reportable business segments. During the period, the Companies recorded an impairment loss of ¥80,549 million.

Year ended March 31, 2014

The Companies do not allocate impairment losses to reportable business segments. During the period, the Companies recorded an impairment loss of ¥8,696 million (U.S.$ 84 million).

## 6. Information on Amortization of Goodwill and Unamortized Balance by Business Segment

Year ended March 31, 2013

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Other | Total |
| Amortization of goodwill | ¥11,235 | ¥1,733 | ¥981 | ¥ 2,495 | ¥— | ¥16,444 |
| Year-end balance | 47,173 | 18,157 | — | 21,047 | — | 86,376 |

Year ended March 31, 2014

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Other | Total |
| Amortization of goodwill | ¥ 22,465 | ¥ 2,021 | ¥— | ¥ 3,635 | ¥ 134 | ¥ 28,255 |
| Year-end balance | 290,312 | 18,420 | — | 26,708 | 2,017 | 337,457 |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Personal Services | Value Services | Business Services | Global Services | Other | Total |
| Amortization of goodwill | $ 218 | $ 20 | $— | $ 35 | $ 1 | $ 275 |
| Year-end balance | 2,821 | 179 | — | 260 | 20 | 3,279 |

## 7. Information on Negative Goodwill by Business Segment

Years ended March 31, 2013 and 2014

No significant items to be reported.

## 21. Per Share Information

| | 2013 (Yen) | 2014 (Yen) | 2014 (U.S. dollars) |
|---|---|---|---|
| Net assets per share | ¥2,943.12 | ¥3,261.63 | $31.69 |
| Net income per share | | | |
| Basic | 315.90 | 398.60 | 3.87 |
| Diluted | 289.26 | — | — |

* The following shows the basis of calculating net income per share and diluted net income per share for the years ended March 31, 2013 and 2014.

| | 2013 (Millions of yen) | 2014 (Millions of yen) | 2014 (Millions of U.S. dollars) |
|---|---|---|---|
| Net income for the fiscal year | ¥241,470 | ¥322,038 | $3,129 |
| Monetary value not related to common stockholders | — | — | — |
| Net income related to common stock | 241,470 | 322,038 | 3,129 |
| Effect of dilutive securities: Amortization of bond premium (after deduction of an amount equivalent to tax)* | (155) | — | — |
| Net income on which diluted net income per share is calculated | ¥241,315 | ¥322,038 | $3,129 |

| | 2013 | 2014 |
|---|---|---|
| Number of weighted average common shares outstanding during the fiscal year | 764,378,162 | 807,924,216 |
| Increase in number of shares of common stock | 69,870,302 | — |
| (Subscription warrants) | (74,455) | — |
| (Convertible bond-type bonds with subscription rights to shares) | (69,795,847) | — |
| Number of shares on which diluted net income per share is calculated | 834,248,464 | 807,924,216 |
| Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect | — | — |

Note 1: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.
The Company also conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
Total net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous consolidated fiscal year.

Note 2: This is the amount of premium amortization for the fiscal year (after deducting an amount equivalent to tax) resulting from the issuance of the bonds at an amount higher than the face amount.

Note 3: For year ended March 31, 2014, diluted net income per share was not shown as dilutive shares do not exist.

Note 4: As described in “Accounting Changes and Others,” the “Accounting Standard for Retirement Benefits” was applied, in accordance with the provisions on transitional implementation indicated in Paragraph 37 the Accounting Standard for Retirement Benefits.
As a result, net assets per share at the end of the fiscal year increased by ¥7.46.

## 22. Others

### 1. Reduction Entry Due to Subsidies, etc.

Cumulative reduction entry due to subsidies, etc. for the acquisition of property, plant and equipment as of March 31, 2013 and 2014 were ¥17,909 million and ¥23,060 million (U.S.$224 million).

### 2. Notes Relating to Affiliates

The following table summarizes the amounts relating to affiliates as of March 31, 2013 and 2014.

| | 2013 (Millions of yen) | 2014 (Millions of yen) | 2014 (Millions of U.S. dollars) |
|---|---|---|---|
| Investments in affiliates | ¥348,169 | ¥41,480 | $403 |
| (of which investment in jointly controlled entities) | (718) | (—) | (—) |
| Other investments in affiliates | 219 | 274 | 3 |

## 3. Supplemental Information of Cash Flow Statement

### 1) Non-monetary transactions

The following tables summarize the major non-cash transactions for the years ended March 31, 2013 and 2014.

Amount of assets and obligations related to finance lease transactions entered by the Companies

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Finance lease assets | ¥4,006 | ¥16,856 | $164 |
| Finance lease obligations | 4,284 | 17,464 | 170 |

Exercise of subscription rights to shares on Zero Coupon Convertible Bonds

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2013 | 2014 | 2014 |
| Marginal gain on disposal of treasury stock | ¥— | ¥ 18,308 | $ 178 |
| Decrease in amount of treasury stock | — | 182,209 | 1,770 |
| Decrease in amount of Zero Coupon Convertible Bonds | ¥— | ¥200,517 | $1,948 |

### 2) Assets and liabilities of newly consolidated subsidiaries

Year ended March 31, 2013

No significant items to be reported.

Year ended March 31, 2014

Jupiter Telecommunications Co., Ltd.(“J:COM”) was newly consolidated as the result of the acquisition of the additional shares and establishing effective control.

The following table summarizes the breakdown of assets acquired and liabilities assumed existed at the time of consolidation.

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Current assets | ¥ 125,900 | $ 1,223 |
| Noncurrent assets | 548,288 | 5,327 |
| Goodwill | 219,735 | 2,135 |
| Current liabilities | (138,156) | (1,342) |
| Noncurrent liabilities | (176,473) | (1,715) |
| Minority interests | (217,834) | (2,117) |
| Subscription rights to shares | (143) | (1) |
| Valuation under the equity method prior to acquisition | (319,722) | (3,107) |
| Loss on step acquisition from the purchase of additional shares | 38,458 | 374 |
| Amount paid for the acquisition of shares of J:COM | 80,053 | 778 |
| Cash and cash equivalent of J:COM | (96,325) | (936) |
| Net amount paid for the acquisition of J:COM | ¥ (16,272) | $ (158) |

## 4. Lease Payment

### 1) As a lessee

Year ended March 31, 2013

1. Finance leases
   No significant items to be reported.

2. Operating leases
   No significant items to be reported.

Year ended March 31, 2014

1. Finance leases
   Finance leases without a transfer of ownership

   Details of lease assets
   Property, plant and equipment
   Primarily set-top boxes in the CATV business

   Depreciation for lease assets
   The depreciation method is described in Note 2. “Significant Accounting Policies.”

2. Operating leases
   No significant items to be reported.

### 2) As a lessor

Year ended March 31, 2013

Finance leases
No transaction

Year ended March 31, 2014

Finance leases
No transaction

# Independent Auditor's Report

To the Board of Directors of KDDI CORPORATION

We have audited the accompanying consolidated financial statements of KDDI CORPORATION and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDDI CORPORATION and its subsidiaries as at March 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

*Convenience translations*

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Kyoto

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 19, 2014